New Markets, Growth Opportunities

Annual Report 2010

TAISHO PHARMACEUTICAL CO., LTD.

Pursuing Steady Business Development Based on Long-Term Strategies

Taisho Pharmaceutical Co., Ltd. operates two business segments: the Self-Medication Operation Group and the Prescription Pharmaceutical Operation Group. The Self-Medication Operation Group handles over-the-counter (OTC) drugs, which have long served as the very foundation of the Company's existence, and other health-related products. The Prescription Pharmaceutical Operation Group works to develop original new ethical pharmaceuticals that are capable of succeeding amid global competition.

We have constantly enhanced our position in the pharmaceutical industry by strategically implementing business reforms from a long-term perspective. As we advance through the current millennium, we will continue to strive to accurately gauge the needs of society in general and to change with the times, thereby realizing sustainable growth in both business segments. In this way, we will keep maximizing the corporate value of the Taisho Pharmaceutical Group.

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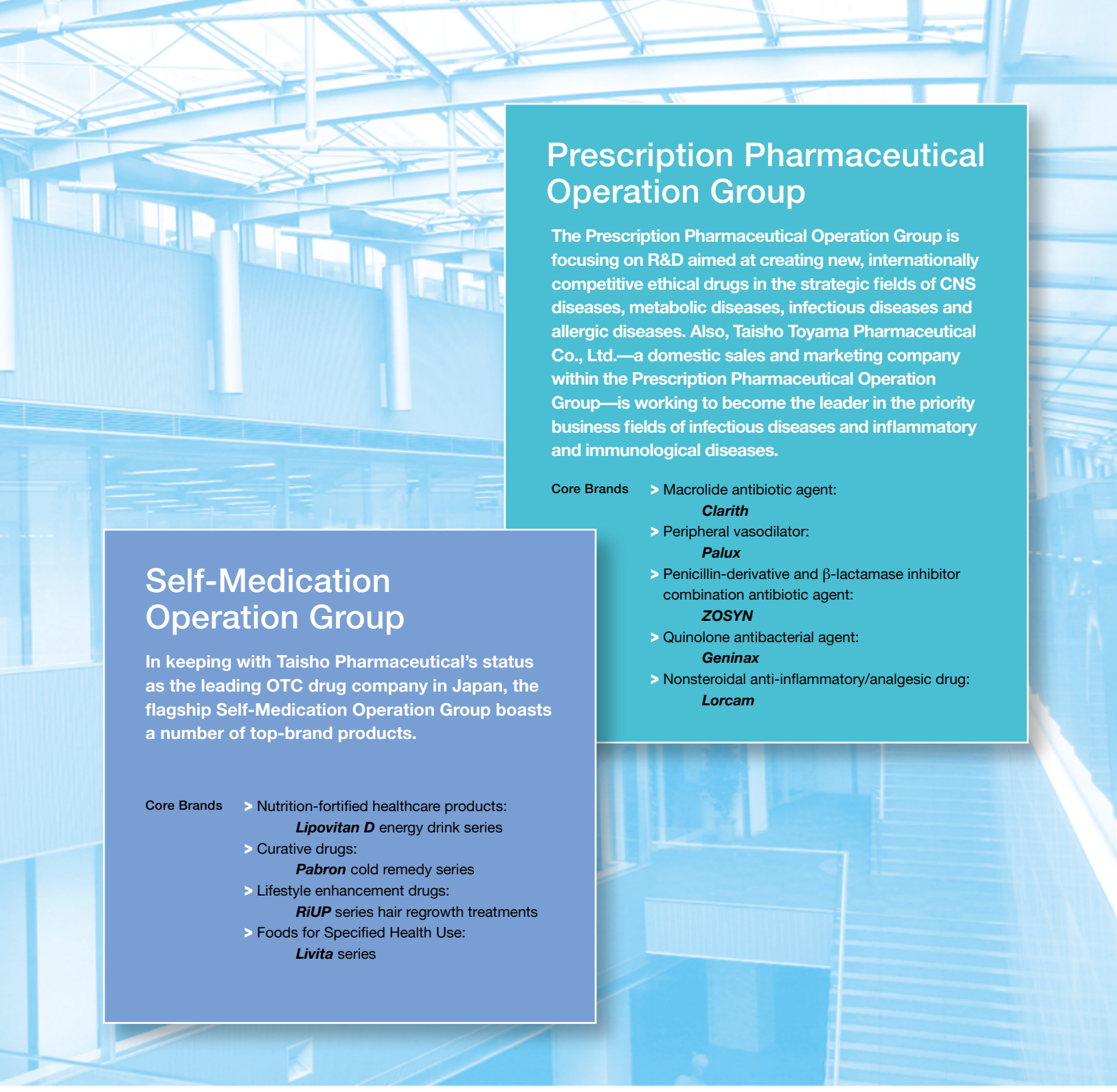


Prescription Pharmaceutical Operation Group

The Prescription Pharmaceutical Operation Group is focusing on R&D aimed at creating new, internationally competitive ethical drugs in the strategic fields of CNS diseases, metabolic diseases, infectious diseases and allergic diseases. Also, Taisho Toyama Pharmaceutical Co., Ltd.—a domestic sales and marketing company within the Prescription Pharmaceutical Operation Group—is working to become the leader in the priority business fields of infectious diseases and inflammatory and immunological diseases.

Core Brands

> Macrolide antibiotic agent:
Clarith

> Peripheral vasodilator:
Palux

> Penicillin-derivative and β-lactamase inhibitor combination antibiotic agent:
ZOSYN

> Quinolone antibacterial agent:
Geninax

> Nonsteroidal anti-inflammatory/analgesic drug:
Lorcam

Self-Medication Operation Group

In keeping with Taisho Pharmaceutical's status as the leading OTC drug company in Japan, the flagship Self-Medication Operation Group boasts a number of top-brand products.

Core Brands

> Nutrition-fortified healthcare products:
Lipovitan D energy drink series

> Curative drugs:
Pabron cold remedy series

> Lifestyle enhancement drugs:
RiUP series hair regrowth treatments

> Foods for Specified Health Use:
Livita series

Cautionary Statement with Respect to Forward-Looking Statements

Statements made in this annual report with respect to Taisho Pharmaceutical's current plans, estimates, strategies and beliefs and other statements that are not historical facts are forward-looking statements about the future performance of the Taisho Pharmaceutical Group. These statements are based on management's assumptions and beliefs in light of the information currently available to it and therefore readers should not place undue reliance on them. The Taisho Pharmaceutical Group cautions readers that a number of important factors, including but not limited to changes in general economic conditions, could cause actual results to differ materially from those discussed in the forward-looking statements.

Fellow Stakeholders

I would like to take this opportunity to provide an overview of Taisho Pharmaceutical Co., Ltd.'s consolidated performance for fiscal 2009, the fiscal year ended March 31, 2010.

The Self-Medication Operation Group expanded sales of the *RiUP* series of hair regrowth treatments through the launch of a new product. However, sales of the *Lipovitan* series of energy drinks and the *Pabron* series of cold remedies were stagnant, resulting in a year-on-year decline in Self-Medication Operation Group sales for the fiscal year under review. On the other hand, the Prescription Pharmaceutical Operation Group increased sales of *ZOSYN*, a penicillin antibiotic agent, and *Geninax*, a quinolone antibacterial agent. As a result, consolidated net sales rose 1% year on year to ¥258.4 billion. On the earnings front, reflecting increases in R&D expenditures and sales promotion expenses, operating profit amounted to ¥34.7 billion, a decrease of 9% compared with fiscal 2008. In contrast, net income surged 121% year on year to ¥19.5 billion, mainly due to the absence of amortization of goodwill recorded in the previous fiscal year. The annual dividend payment of ¥27 per share was unchanged from that of fiscal 2008.

In June 2009, a new OTC drug retailing system took effect in Japan, dramatically changing the environment for business relating to OTC drugs. To reduce Japan's total national healthcare expenditure, which keeps rising on the back of the aging of the Japanese population, it has become increasingly important for consumers to be proactive in protecting their health themselves through self-medication. To support this shift, it will be indispensable for Japan's new OTC drug retailing system to take hold in the market and for Category 1 OTC drugs—often Rx-to-OTC drugs that contain the same active ingredients as their ethical counterparts—to strengthen their presence in the market.

In view of the situation, Taisho Pharmaceutical will further enhance its lineup of Category 1 OTC drugs in line with its mission as a leading OTC drug company helping to drive market growth. Also, with regard to energy drinks—the Company's mainstay OTC drug category—we will continue to reinforce our product lineup and provide useful information in order to meet the ever-diversifying needs of consumers. In addition to these initiatives for the domestic market, we will promote our Asian OTC drug business—acquired from U.S.-based Bristol-Myers Squibb Company in fiscal 2009—as we work to establish it as a full-scale operation.

As for the Prescription Pharmaceutical Operation Group, having enjoyed steady sales growth for *ZOSYN* and *Geninax* during the period under review, the consolidated subsidiary Taisho Toyama Pharmaceutical Co., Ltd. finally achieved its long-hoped-for objective of attaining the leading position in the market for systemic antibacterial agents, which are classified as Code J01 drugs under the Anatomical Therapeutic Chemical (ATC) Classification System. Taisho Pharmaceutical will work to keep solidifying its top market position. Also, recognizing the inflammatory and immunological disease field as a business area that is likely to grow to complement its established operations related to infectious diseases, the Company will strive to strengthen its business foundations in order to further develop this strategic field into another core business within the Prescription Pharmaceutical Operation Group.

I would like to express our heartfelt thanks to you, our fellow stakeholders, in anticipation of your continued understanding and support.

Akira Uehara
Chairman and CEO

Growth Strategy of the Taisho Pharmaceutical Group

Steady Growth on Two Fronts

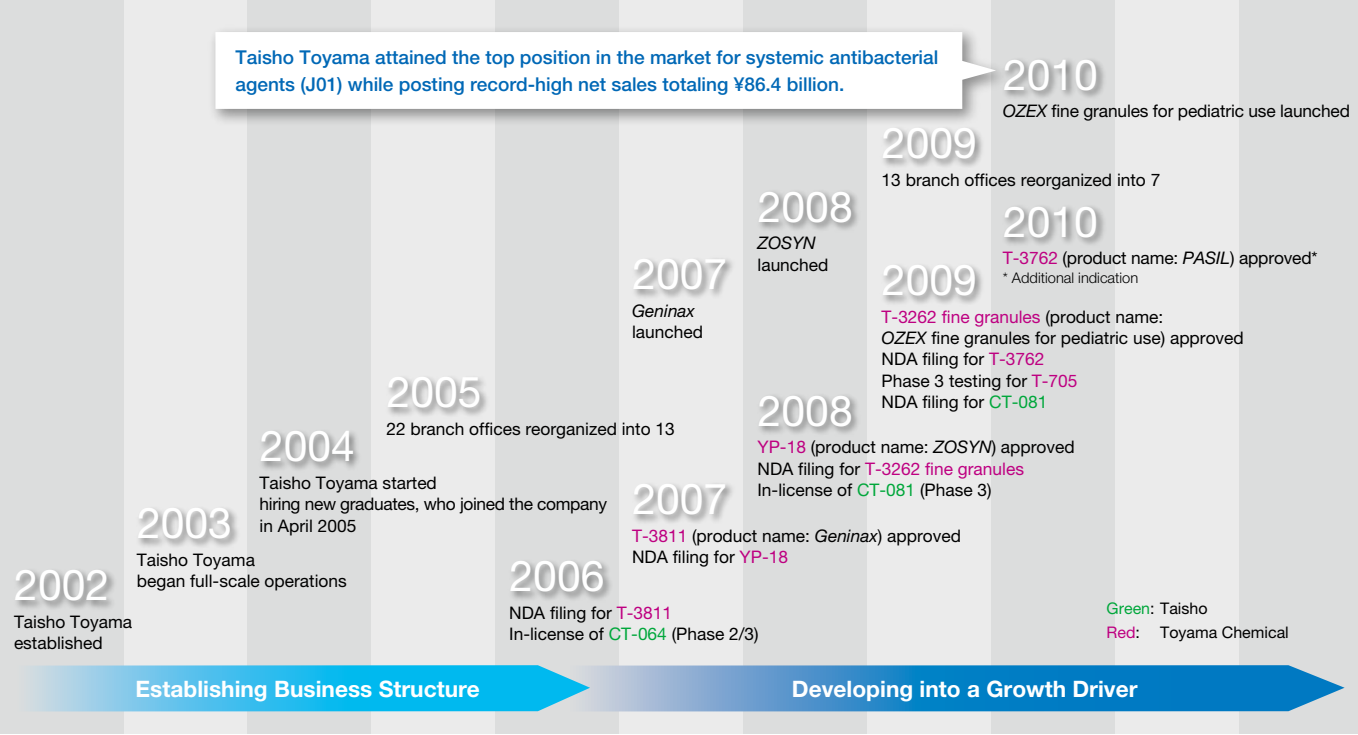
The Taisho Pharmaceutical Group is promoting two business segments: the Self-Medication Operation Group and the Prescription Pharmaceutical Operation Group. The Company's growth strategy entails balancing growth in and generating synergies between these segments.

Developing OTC Drugs in New Therapeutic Fields

June 2009 saw the implementation of a new OTC drug retailing system in Japan that drastically changed the OTC drug market environment, including the way such drugs are displayed and sold at drug stores and other outlets. At the same time, public funding for medical insurance is being squeezed as national healthcare expenditure marches inexorably upward due to an aging society. It is because of these trends that the expectation of the roles that self-medication and OTC drugs can play in ensuring health is steadily heightening. The current situation is favorable for Taisho as it seeks to achieve further business growth through the leveraging of its strengths. To accurately tap the opportunities provided by current circumstances, Taisho must bolster its lineup of Category 1 OTC drugs, which are based on active ingredients previously used solely for ethical drugs. Taking advantage of our long-nurtured, extensive R&D expertise, we are working to develop Category 1 OTC drugs in new therapeutic fields and are thereby accommodating wide-ranging consumer needs.

Taisho's principal Category 1 OTC drugs

Major Activities of Taisho Toyama and Late-Phase R&D Projects



The Prescription Pharmaceutical Operation Group Enters a New Growth Phase

In the fiscal year under review, Taisho Toyama Pharmaceutical Co., Ltd. (Taisho Toyama)—the major Taisho Pharmaceutical consolidated subsidiary in the Prescription Pharmaceutical Operation Group—achieved its long-awaited goal of becoming the leading company in the market for systemic antibacterial agents (J01) in Japan. This represents the fulfillment of one of the two goals that Taisho Toyama laid out at the time of its establishment in October 2002, namely, capturing the leading positions in both the infectious disease and inflammatory and immunological disease fields. In its early days, Taisho Toyama ranked somewhat below the top players in the antibacterial agent market. Through the enhancement of its sales and marketing foundation and the launch of new products, however, Taisho Toyama gradually narrowed the gap. Having finally climbed to the top in the market in fiscal 2009, Taisho Toyama is currently working to solidify its overwhelming market position.

Bolstering the Provision of Information for Core Products through the Strategic Selection of Target Fields

Established jointly by Taisho Pharmaceutical and Toyama Chemical Co., Ltd. as an ethical drug sales and marketing entity tasked with becoming the market leader, Taisho Toyama first tackled the strategic selection of target therapeutic areas and the establishment of a powerful sales and marketing foundation. During the two-year period following the commencement of full-scale operations in April 2003, Taisho Toyama drastically reorganized its sales and marketing bases and standardized employee treatments. At the same time, Taisho Toyama consecutively launched wide-ranging

initiatives, including the clarification of core products and the identification of target institutions for its information provision activities.

Through these initiatives, Taisho Toyama has steadily strengthened its sales and marketing foundation, ensuring that it will better meet needs on the medical front-lines. The strengthened foundation has supported the rise of such products as the macrolide antibiotic agent *Clarith* and the peripheral vasodilator *Palux*, which contribute significantly to the business performance of the Prescription Pharmaceutical Operation Group.

Reaping the Synergies of an Enhanced Business Foundation and Consecutive New Product Launches toward a Renewed Growth Phase

Having completed the establishment of a solid sales and marketing foundation five years after its establishment, Taisho Toyama released the much-anticipated new product *Geninax*. Through effective co-promotion with Astellas Pharma Inc., sales of this new oral quinolone antibacterial agent have shown stable growth. In October 2008, Taisho Toyama launched *ZOSYN*, a combination of penicillin-derivative and β-lactamase inhibitor, further reinforcing its portfolio of antibacterial agents. In addition to Taisho Toyama securing a sufficient level of existing product sales, these two products have significantly contributed to Taisho Toyama attaining the leading position in the antibacterial agent market. Looking ahead, while remaining mindful of its role as the market leader, Taisho Toyama will work to further bolster its contributions to successes on medical front-lines.

In fiscal 2010, ending March 31, 2011, the Prescription Pharmaceutical Operation Group aims to further solidify its foothold in the infectious disease field through Taisho Toyama. Also, with an eye to achieving additional corporate growth, we are working to build the strong foundation required to develop our operations in the inflammatory and immunological field into a core business in the Prescription Pharmaceutical Operation Group.

In the inflammatory and immunological field, Taisho Pharmaceutical is developing CT-081 for the indication of osteoporosis and has filed a new drug application for this compound. Furthermore, the Company is steadily advancing the development of CT-064, which is also a potential treatment for osteoporosis, and TT-063, which is expected to cover such indications as osteoarthritis, scapulohumeral periarthritis, myalgia and other conditions. These promising compounds have significant potential for supporting the renewed growth of the Taisho Pharmaceutical Group.

Taisho's principal infectious disease field products

A New Step in Overseas Operations

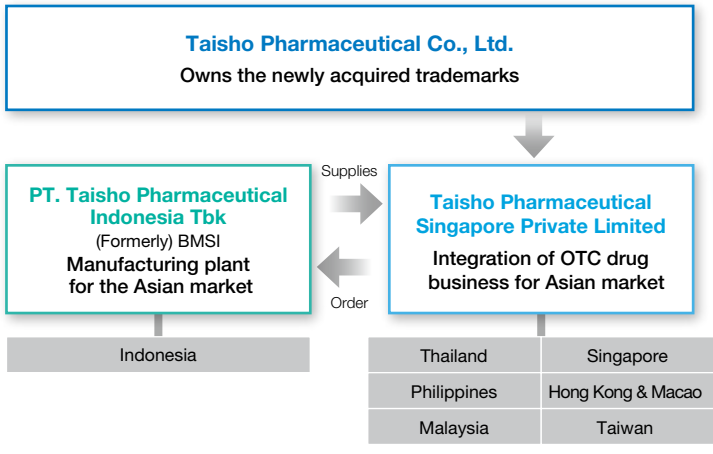
Taisho currently holds an overwhelming share of the Japanese energy drink market with its *Lipovitan D* energy drinks. It was in 1963 that the Company first introduced this energy drink to overseas markets. Today, the Company sells the *Lipovitan* series in 16 countries throughout the world, particularly in Asia. In addition to our energy drinks, we market the *Pabron* cold remedy series and the *Taisho Kampo Gastrointestinal Treatment* series in Thailand and Malaysia. During fiscal 2009, Taisho acquired the Asian OTC drug operations of U.S.-based Bristol-Myers Squibb Company, making a full-scale entry into the OTC drug market in Asia.

Accelerating Our Asian OTC Drug Operations

In October 2009, Taisho acquired certain assets, including *Tempra* (analgesic antipyretic), *Counterpain* (topical antiphlogistic analgesic) and other OTC drug trademarks, held by Bristol-Myers Squibb in the Asia-Pacific region, excluding Japan and China. Also, the agreement for the above transaction included the acquisition of PT. Bristol-Myers Squibb Indonesia Tbk—Bristol-Myers Squibb's Indonesian subsidiary and manufacturing base for OTC products in Asia.

In November the same year, Taisho established a subsidiary in Singapore to manage its Asian operations as part of the transfer of the acquired business. Taisho is working to enhance its brand equity and develop new markets, thereby realizing additional business growth in emerging Asian markets.

PT. Taisho Pharmaceutical Indonesia Tbk (Factory)



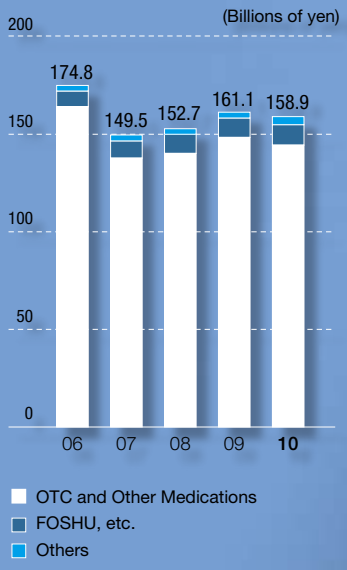
An anti-inflammatory analgesic for external use: *Counterpain* and an antipyretic analgesic: *Tempra*

Sales Composition
— Consolidated basis

¥158.9 billion

61.5%

Net Sales
— Years ended March 31



Self-Medication Operation Group

Segment Overview

The Self-Medication Operation Group (SMG) comprises OTC drugs, Foods for Specified Health Use (FOSHU) and other businesses. The market performance of OTC drugs, which constitute the core business of SMG, in fiscal 2009 lagged behind that of fiscal 2008 due to such factors as sluggish Category 1 drug sales following the implementation of a new OTC drug retailing system in June 2009 as well as significant drops in the markets for cold remedies from the third quarter onward and for energy drinks throughout fiscal 2009. In such a business environment, SMG focused on providing information on its Category 1 and other OTC drugs while strengthening in-store sales promotion and solution proposals that highlight the value of its products. Nevertheless, net sales edged down 1.4% year on year to ¥158.9 billion. The contribution made to SMG net sales by Biofermin Pharmaceutical Co., Ltd. amounted to ¥5.2 billion, a year-on-year decrease of 4.0%. In October 2009, Taisho acquired certain

Livita series

assets, including OTC drug trademarks, held by U.S.-based Bristol-Myers Squibb Company in the Asia-Pacific region and Indonesia-based PT. Bristol-Myers Squibb Indonesia Tbk (current by PT. Taisho Pharmaceutical Indonesia Tbk). SMG net sales included the fourth-quarter sales, totaling ¥0.8 billion, posted by this new Indonesian arm.

OTC and Other Medications

Fiscal 2009 was a year of change in the OTC drug market in the wake of the implementation of the new OTC drug retailing system in June 2009. With regard to the *Lipovitan* series of energy drinks, sales of mainstay *Lipovitan D* suffered weak sales due to the ongoing economic recession, intensified competition and the impact of unfavorable weather conditions during the summer, traditionally a high-demand period. Accordingly, sales of the *Lipovitan* series dipped 5.3% year on year to ¥70.8 billion. With regard to our mainstay general cold remedies, despite robust performance owing to an outbreak of influenza during the first half, sales of the *Pabron* series of cold remedies slumped from the third quarter onward, resulting in a 1.7% decline in full-year sales to ¥24.9 billion. Also, although Category 1 OTC drugs recorded generally stagnant performances, sales of the *RiUP* series of hair regrowth treatments rose 11.9% year on year to ¥12.7 billion, reflecting strong sales of *RiUP X5*, a new product released in June 2009. Sales of the *ZENA* series of energy drinks fell 10.5% to ¥3.5 billion, largely owing to weak personal spending.

FOSHU

In the FOSHU and other products business, sales of the *Livita* series were robust, climbing 19.6% year on year to ¥3.1 billion, thanks to contributions from *Glucocare Powder Stick* and other powder products. In contrast, overseas drink sales edged down 3.8% to ¥5.7 billion.

Net Sales of Main Products (Billions of yen)

	2010	2009	2008
OTC drugs, etc.	**144.3**	**140.1**	**140.1**
Lipovitan series	70.8	74.8	76.6
Lipovitan D	49.4	52.8	55.2
Others	21.4	22.0	21.4
Pabron series	24.9	25.4	23.2
RiUP series	12.7	11.4	10.0
Overseas OTC (portion from BMS)	0.8	—	—
FOSHU, etc.	**10.4**	**9.9**	**8.8**
Livita series	3.1	2.6	2.3
Overseas drinks	5.7	6.0	6.1

Years ended March 31

Self-Medication Operation Group

Topics

Fiscal 2009: Year of Change in OTC Drug Market

June 2009 saw the implementation of a new OTC drug retailing system in Japan in line with an amendment to the Pharmaceutical Affairs Law. This new retailing system has significantly changed the way OTC drugs are displayed and sold in stores. Through such changes, the market environment for OTC drugs has undergone a dramatic transition. Although the new system was implemented with an eye to the future growth of the OTC drug market, the implementation caused confusion at OTC drug points of sale at first. Also, due to a shortage of pharmacists, the number of outlets handling Category 1 drugs has declined. Negatively affected by these conditions, sales of Category 1 drugs were stagnant during the period under review. What is worse, the market for energy drinks slowed because of the cool summer weather in 2009, and sales of cold remedies were weak during the second half. Reflecting the overall situation, the scale of the OTC drug market contracted 2% compared with fiscal 2008 to ¥1,149.2 billion.

In terms of applications, sterilizers and gargle for preventing new strain of influenza as well as drugs for female complaints showed strong sales. At the same time, however, against the backdrop of new influenza outbreaks, people tended to seek help from medical institutions during the early stages of infection. This led to sluggish sales of cold remedies, with full-year sales of such drugs dropping year on year. Also, sales of rhinitis drugs and eyedrops decreased year on year, owing to relatively low cedar pollen circulation in the air during the hay fever season.

Leveraging Our Strengths under Adverse Conditions

Despite the harsh operating environment during fiscal 2009, SMG was able to limit the year-on-year decline in sales to 1.4% by compensating for the decreased sales of the *Lipovitan* energy drink series and the *Pabron* cold remedy series with increased sales of the *RiUP* hair regrowth treatment series and the *Livita* series of FOSHU. In addition, looking at the OTC drug sales breakdown by category, SMG expanded the percentage of Category 1 OTC drug sales from 18.8% of total sales in fiscal 2008 to 19.7%. The *RiUP X5* hair regrowth treatment made significant contributions to this outcome.

In fiscal 2010, ending March 31, 2011, Taisho will work to secure the revenue and earnings of SMG through the reinforcement of its core brands.

The Company will particularly focus on its energy drinks. In response to ever-diversifying consumer lifestyles, we will enhance the *Lipovitan* lineup by introducing energy drinks with more clearly defined dosage scenarios—an initiative that proved successful with *Lipovitan Fine* and *Lipovitan FB*. Also, we will go back to the basics in marketing. Specifically, we will bolster the provision of information regarding our energy drinks while working to ensure their attractive in-store presentation. These initiatives are expected to boost sales of the *Lipovitan* series above those recorded in the period under review.

With regard to the *RiUP* hair regrowth treatment series, *RiUP X5*, which was released in June 2009, is selling robustly. Taisho expects to see further sales expansion for this new product. This expectation is supported by the fact

Mainstay products

that the topical application of minoxidil—an active ingredient of the *RiUP* hair regrowth treatment series—has been qualified for Recommendation Level A under the Guidelines for Diagnosis and Treatment of Androgenetic Alopecia (2010 Edition), which was announced by the Japanese Dermatological Association in April 2010.

Meanwhile, Taisho will strive to bolster its lineup of Category 1 drugs. To this end, the Company will accelerate the development of OTC drugs based on new ingredients to pioneer new drug categories and indications.

Among new businesses, the *Glucocare* series of FOSHU under the *Livita* brand is steadily developing as a flagship business, with sales of *Livita* products showing stable year-on-year expansion. In anticipation of additional market growth, Taisho will continue to enhance its lineup of metabolic syndrome-related products. Also, our mail-order services are strengthening their market foothold, driven by the *Taisho Glucosamine* non-vitamin, non-mineral, dietary supplement.

We Are Leading OTC Drug Market Growth

Because this is the first time in 50 years that the OTC drug retailing system has been revised, it is expected that the new system will require some time to take hold. From the perspective of national healthcare, however, both the necessity of self-medication and the expectation of the role that OTC drugs play will never decrease; rather, they will most likely keep rising. Furthering this idea, if OTC drugs are effective in preventing the appearance of symptoms of lifestyle-related and other diseases, the practice of self-medication will, without doubt, spread wider among consumers. At the same time, increased reliance on OTC drugs is expected to contribute significantly to a reduction in national healthcare expenditure.

During fiscal 2009, amid the market turmoil immediately following the implementation of the new OTC drug retailing system, prices of Category 2 and Category 3 OTC drugs, which collectively account for the majority of the market, kept declining. The lower prices of these drugs negatively affected the overall profitability of businesses operating in the OTC drug market. This situation has made market players increasingly aware that Category 1 OTC drugs hold the key to success, not only for each company individually, but also for the entire OTC drug industry.

As a top OTC drug company, Taisho will continue to disseminate the importance of self-medication, thereby contributing to the expansion of the OTC drug market. At the same time, the Company will leverage its long-accumulated expertise to develop OTC drugs based on new ingredients in new application fields. In this way, we will keep accommodating ever-diversifying consumer needs.

Mail order products

Sales Composition

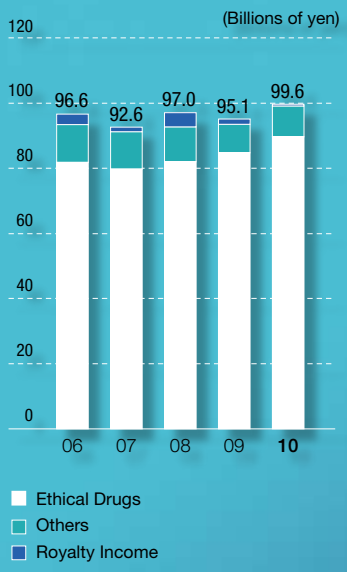
— Consolidated basis

¥99.6 billion

38.5%

Net Sales

— Years ended March 31



Prescription Pharmaceutical Operation Group

Segment Overview

Jointly established by Taisho and Toyama Chemical Co., Ltd., consolidated subsidiary Taisho Toyama Pharmaceutical Co., Ltd. (Taisho Toyama) conducts ethical drug sales and marketing activities. The Company and Taisho Toyama have continued to strengthen their sales force, with a focus on stepping up efforts to provide information to medical institutions while bolstering their R&D capabilities.

Various government measures designed to curb healthcare costs are gradually taking hold in Japan. This, coupled with ever-intensifying market competition, led to continued severe business conditions for the Prescription Pharmaceutical Operation Group (PPG) during fiscal 2009. Under these circumstances, PPG worked diligently to strengthen its marketing capabilities by focusing on the provision of information while accelerating the development of the seeds of new drugs and other R&D efforts.

Thanks to its efforts, Taisho Toyama was able to finally capture the leading position in the Japanese antibacterial agent market* in fiscal 2009 while posting record-high net sales. Reflecting these factors, net sales in PPG edged up 4.8% year on year to ¥99.6 billion. The contribution made

Mainstay products

to PPG net sales by Biofermin Pharmaceutical Co., Ltd. totaled ¥3.1 billion, up 4.4% from fiscal 2008.

* The market for systemic antibacterial agents (J01)

Ethical Drugs

Sales of *ZOSYN*, which was released in October 2008, surged 167.5% year on year to ¥10.7 billion. Also, sales of *Geninax* jumped 29.4% to ¥4.8 billion. In contrast, sales of *Clarith*, *Palux*, *Lorcam*, *PENTCILLIN* and *TOMIRON* all declined, falling 2.8%, 3.1%, 6.0%, 21.4% and 15.2%, respectively, to ¥23.3 billion, ¥10.8 billion, ¥3.7 billion, ¥4.3 billion and ¥2.5 billion.

Others

Sales of other products, such as intermediate products for medical use, amounted to ¥9.4 billion, up 8.1% year on year.

Royalty Income

Royalty income plunged 67.7% year on year to ¥0.5 billion.

Net Sales of Main Products (Billions of yen)

Product name	Description/Application	2010	2009	2008
Clarith	Macrolide antibiotic agent	23.3	24.0	25.5
Palux	Peripheral vasodilator	10.8	11.2	11.4
*ZOSYN/TAZOCIN**	Antibiotic agent formulated with the β-lactamase inhibitor	10.7	4.0	1.3
Geninax	Quinolone antibacterial agent	4.8	3.7	3.3
PENTCILLIN	Synthetic penicillin agent	4.3	5.5	6.2
Lorcam	Nonsteroidal anti-inflammatory/analgesic drug	3.7	4.0	4.3
OZEX	New quinolone antibacterial agent	2.8	3.0	3.4
TOMIRON	Cephem antibiotic agent	2.5	3.0	3.0
LUPRAC	Loop diuretic	2.1	2.1	2.0
Metligine	Therapeutic agent for hypotension	1.8	1.9	2.0

Years ended March 31

* Figures for the fiscal years ended March 31, 2009 and 2010 include net sales of both *ZOSYN* and *TAZOCIN*.
Figures for the fiscal year ended March 31, 2008 include net sales of *TAZOCIN* alone.

Prescription Pharmaceutical Operation Group

Topics

Taisho Toyama Posts Record-High Sales

During fiscal 2009, the antibacterial agent market continued to expand year on year until around November 2009 on the back of new influenza outbreaks. In the last quarter, however, the epidemic was limited in scale. Accordingly, on a full-year basis, sales in the antibacterial agent market declined 4% compared with fiscal 2008.

In such an environment, Taisho Toyama bolstered the provision of information related to its core products. Through this and other initiatives, Taisho Toyama managed to limit the year-on-year decline in sales of *Clarith*—a flagship PPG product—to 2.8%, which, in turn, pushed up the market share of this product. Sales of *ZOSYN* expanded more than 2.5 times compared with those in the previous fiscal year, exceeding the ¥10 billion mark in the second year after its release. Also, sales of *Geninax* showed steady growth, significantly contributing to the overall performance of PPG. As a result, Taisho Toyama recorded its highest sales ever since starting full-fledged operations in fiscal 2003.

Solidifying Our Leading Position in the Infectious Disease Field

In general, the scale of an infectious disease epidemic has a significant influence on the scale of the antibacterial agent market. Countering this tendency, Taisho Toyama is steadily strengthening its presence in the infectious disease field by taking advantage of its extensive lineup of antibacterial agents, including *Clarith*, and continuously reinforcing the provision of product information in line with needs on the medical front-lines. These efforts bore fruit in fiscal 2009, enabling Taisho Toyama to achieve its long-sought-after goal of capturing the leading position in the market for systemic antibacterial agents (J01).

Looking ahead, in order to solidify its leading position in the infectious disease field, Taisho Toyama will further enhance the capabilities of its medical representatives (MRs), who underpin the trust-based relationships with physicians. In pace with our climb up the ladder, our MRs are increasingly gaining solid recognition on the medical frontlines. Also, as Taisho Toyama penetrates new application fields with its antibacterial agents, competition with other drug companies intensifies further. Given these developments, it is expected that MRs will be presented with the challenge of meeting more sophisticated needs. In anticipation, Taisho Toyama is accelerating its MR training. More specifically, Taisho Toyama is drawing on drug and chemical specialists to help its MRs become fully knowledgeable of its products while offering them opportunities to participate in small-group role-playing sessions. These initiatives are helping our MRs strengthen their capabilities so that they may provide effective consultation to physicians.

Channeling Success in the Infectious Disease Field into the Establishment of the Second Mainstay Operation

Thanks to our vigorous information provision efforts at hospitals that treat seriously ill patients, sales of *ZOSYN*, which was launched in October 2008, have grown rapidly. Taisho Toyama expects to see a further expansion in sales of this product, and in fiscal 2010 it aims to attain the top share for *ZOSYN* in the injectable antibacterial agent market.

With regard to *Geninax*, thanks to successful co-promotion with Astellas Pharma Inc., we are now even better positioned to achieve ¥10 billion in annual sales on a National Health Insurance (NHI) price basis. Taisho Toyama and Astellas Pharma will further bolster collaboration to expand the market scale for *Geninax*. At the same time, the

Other mainstay products

two companies will work to capture a leading share of the market for quinolone antibacterial agents for the treatment of infectious respiratory and otorhinolaryngologic diseases—the primary indications for *Geninax*.

Meanwhile, Taisho has recognized inflammatory and immunologic diseases as its new strategic field after the infectious disease field. In this field, the Company has filed for a new drug application (NDA) for the osteoporosis treatment CT-081. For CT-064—another osteoporosis treatment—the Company is advancing Phase 2/3 and Phase 2 clinical testing for, respectively, the injectable and oral formulations. With the aim of establishing another mainstay operation for PPG in the inflammatory and immunologic disease field, Taisho Toyama is further reinforcing MR training on related products. In addition, with an eye to the future launch of new drugs, we are stepping up marketing activities targeting orthopedic surgery and other diagnosis and treatment fields.

Development Pipeline (As of July 30, 2010)

Stage	Name	Formulation	Indication	In Development with	Originator	Remarks
Approved	*Clarith* Tablet 200	Oral	Eradication by concomitant therapy* of *H. pylori* in: gastric MALT lymphoma; the stomach after endoscopic resection of early-stage gastric cancer; and idiopathic thrombocytopenic purpura	Joint application with 9 companies	Taisho	Additional indication
Filed	CT-081 (ED-71)	Oral	Osteoporosis	Chugai Pharmaceutical	Chugai Pharmaceutical	
Phase 2/3	CT-064 (R484)	Injection	Osteoporosis	Chugai Pharmaceutical	Roche	
Phase 2	TT-063	Topical	Osteoarthritis,scapulohumeral periarthritis,myalgia and other conditions	TOKUHON	TOKUHON	
	NT-702	Oral	Asthma	Nissan Chemical	Nissan Chemical	
			Intermittent claudication caused by ASO**			
	CT-064 (R484)	Oral	Osteoporosis	Chugai Pharmaceutical	Roche	
	TS-071	Oral	Type 1 and 2 diabetes	In-house	Taisho	
	Palux	Injection	Intermittent claudication caused by SCS***	In-house	Taisho/Mitsubishi Tanabe	Additional indication

* Consists of a proton pump inhibitor (lansoprazole, omeprazole and rabeprazole sodium), amoxicillin hydrate and clarithromycin
** ASO: Arteriosclerosis obliterans
*** SCS: Spinal canal stenosis

Corporate Governance

1. Fundamental Policy

The fundamental policy of Taisho Pharmaceutical toward corporate governance calls for reinforcing management supervision and ensuring appropriate business execution, while clearly separating these two functions. To maintain its strict adherence to this policy, Taisho Pharmaceutical has based its corporate management on collaboration among its Board of Directors, Board of Corporate Auditors and corporate auditors. Also, with the aim of ensuring the adequacy of activities conducted by these corporate bodies and executives, the Company has established various structures.

2. Corporate Governance Structure

Board of Directors and Executive Officer System

Taisho Pharmaceutical's Board of Directors currently comprises 12 directors, including 2 external directors, and meets, in principle, once a month. The Board of Directors makes decisions on important matters related to business execution and Groupwide management and monitors operations undertaken based on their decisions. During the fiscal year ended March 31, 2010, the Board of Directors held 15 meetings. In addition, the Company has adopted an executive officer system, under which it currently has four executive officers. Also, the Management Advisory Committee, which includes the Company's representative directors as members and serves as an advisory body to the Board of Directors, meets on an as-required basis to further facilitate effective and efficient management decision making.

Corporate Auditors and Board of Corporate Auditors

Taisho Pharmaceutical has adopted a corporate auditor system. The Board of Corporate Auditors currently consists of four corporate auditors, two of whom are external appointees. The Board of Corporate Auditors, in principle, meets at least four times a year, at which meeting each corporate auditor presents reports on the status of their audits. In addition to the regular quarterly meetings, the Board of Corporate Auditors holds four meetings a year to receive reports from the accounting auditor on accounting audits. Corporate auditors monitor the Company's business conditions and financial status, and compile reports and make suggestions to the representative director in a timely and appropriate manner. Furthermore, corporate auditors accompany the accounting auditor on audits of the Company's subsidiaries and business bases to observe audits. The Board of Corporate Auditors met eight times during the fiscal year ended March 31, 2010.

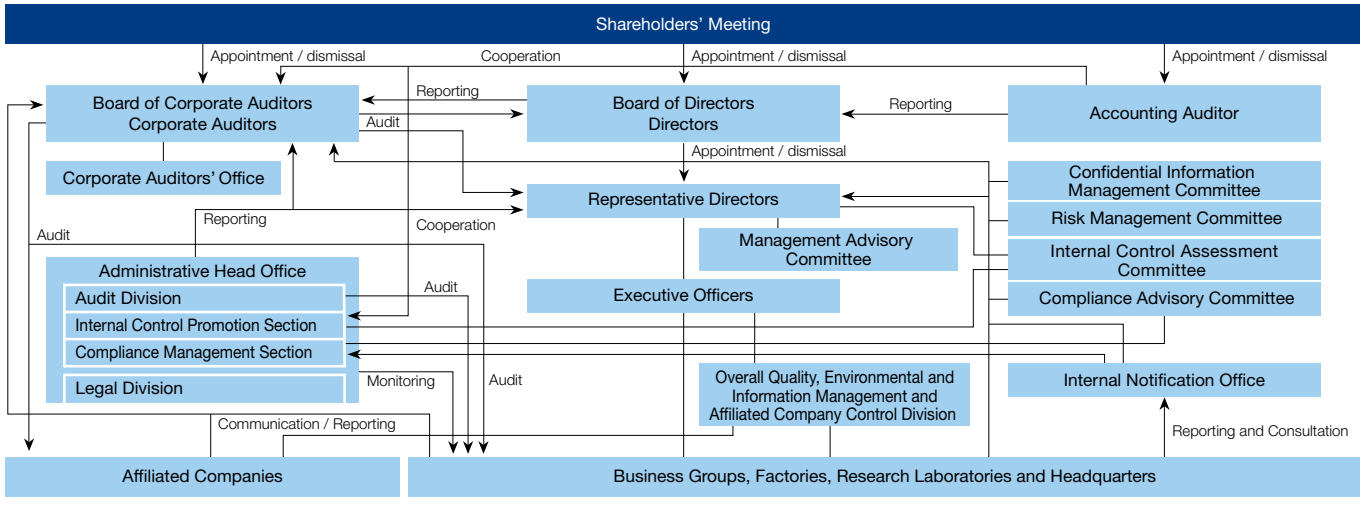
3. Internal Control

Internal Control System Development

In an effort to reinforce its corporate governance, Taisho Pharmaceutical has formulated the Fundamental Internal Control Policies.

In line with these policies, the Company has established an Administrative Head Office comprising the Audit Division, the Compliance Management Section, the Legal Division and the Internal Control Promotion Section. The Administrative Head Office plays a fundamental role in supporting the Company's systems for developing, reviewing and amending various in-house rules and regulations related to internal control. In addition, the office disseminates these rules and regulations throughout the Company

Corporate Governance Structure



and monitors operations in terms of efficiency and effectiveness. The Company also established a Risk Management Coordination Section in October 2009.

Internal Audits and Audits by Corporate Auditors

The Audit Division maintains its independence from Taisho Pharmaceutical's business execution, and as of June 29, 2010, it consisted of 16 staff members. Having been positioned under the Administrative Head Office, the Audit Division formulates a risk-specific audit plan every year and, based on this plan, performs internal audits in accordance with the Company's internal auditing regulations. On a Companywide scale that includes subsidiaries and business bases, audits by corporate auditors are performed in line with a corporate auditors' audit plan formulated based on an annual audit policy.

Compliance

As a company active in the life science field, Taisho Pharmaceutical has formulated the Declaration of Corporate Conduct and Our Code of Conduct, both of which are based on its management philosophy. The Company is working to disseminate and instill the declaration and principles Companywide to promote practical compliance activities. The Company has also formulated Compliance Regulations to clearly define the systems and processes for promoting compliance activities. At the same time, the Company has formulated Division Action Guidelines specific to each business unit in order to allow individual Taisho Pharmaceutical employees to familiarize themselves with and better understand Our Code of Conduct. The Company is striving to ensure that its employees strictly observe the Division Action Guidelines in the execution of their respective duties.

Meanwhile, Taisho Pharmaceutical has appointed to the position of Compliance Officer an individual currently holding the concurrent posts of representative director and executive vice president and has established the Compliance Management Section within the Administrative Head Office. All general managers have been appointed as compliance promotion officers in an effort to reinforce the Company's monitoring framework for identifying compliance-related issues at an early stage. Moreover, the Company has established the Compliance Advisory Committee. Also, the Company provides hotlines for its employees. Several of these hotlines are internal, while the remaining external hotlines connect complainants to external legal counsel, counselors and consultants.

Risk Management System

Taisho Pharmaceutical has formulated Risk Management Guidelines to effectively manage risks that can materialize in the course of its operations. In accordance with these guidelines, the Risk Management Committee has been established as the central body to manage risks on a Companywide scale. In particular, for risks relating to its management strategies, the Company maintains a framework that enables its senior management to respond to situations in a flexible and agile manner.

More recently, in October 2009, Taisho Pharmaceutical established the Risk Management Coordination Section, which is responsible for the maintenance of the Risk Management Guidelines and serves as the secretariat to the Risk Management Committee. Furthermore, the Risk Management Coordination Section monitors overall risk management activities conducted by each business unit and provides advice and guidance for these activities. Through activities implemented on a Companywide scale, the Risk Management Coordination Section is working to enhance the Company's risk management system.

Corporate Social Responsibility

1. Quality Assurance

Taisho Pharmaceutical has established a Quality Assurance Head Office (QA Head Office) in an effort to promote quality assurance at each stage of its business activities, from R&D through manufacture, sales and aftersales service. In addition to our compliance with laws and regulations, the QA Head Office's key role is to scientifically assure consumers that our products are safe. To that end, the QA Head Office is responsible for maintaining quality assurance and safety management following manufacture and sale, auditing clinical trials and conducting quality assurance activities for test results at the R&D stage. Besides these responsibilities, the QA Head Office is in charge of formulating the Company's fundamental quality assurance principles and policies as well as of planning and promoting the development and reinforcement of a Companywide quality assurance system.

2. Social Contribution and Environmental Preservation Activities

As an integrated pharmaceutical manufacturer, Taisho Pharmaceutical is working actively to contribute to the better quality of life for people everywhere. At the same time, in addition to recognizing the tackling of environmental issues as one of its important management priorities, the Company has established the Uehara Memorial Foundation as a way of encouraging and supporting research in a variety of life-science-related fields.

Financial Section

Five-Year Financial Summary

Taisho Pharmaceutical Co., Ltd. and Its Consolidated Subsidiaries
For the years ended March 31, 2010, 2009, 2008, 2007 and 2006

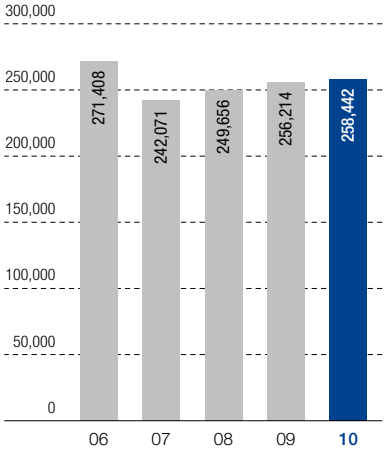
	Millions of yen				
	2010	2009	2008	2007	2006
For the year:					
Net sales	**¥ 258,442**	¥ 256,214	¥ 249,656	¥ 242,071	¥ 271,408
Cost of sales	**91,739**	86,752	85,168	82,220	86,687
Gross profit	**166,703**	169,462	164,488	159,851	184,721
Selling, general and administrative expenses	**132,017**	131,527	127,536	137,494	138,325
Operating income	**34,686**	37,936	36,952	22,357	46,396
Net income	**19,485**	8,815	25,004	15,421	35,884
At year-end:					
Total liabilities and net assets	**¥ 606,443**	¥ 591,569	¥ 627,224	¥ 631,929	¥ 664,431
Current assets	**215,687**	215,873	249,463	240,417	271,157
Current liabilities	**55,680**	54,130	55,643	53,910	57,725
Working capital	**160,007**	161,743	193,820	186,507	213,432
Net assets*	**527,761**	514,511	548,650	547,486	569,540
R&D expenditures	**28,118**	27,524	24,725	28,520	23,072
R&D expenditures as a percentage of net sales (%)	**10.9%**	10.7%	9.9	11.8	8.5
Total capital expenditures**	**21,526**	6,330	6,278	8,066	13,397
Net cash provided by operating activities	**39,475**	35,783	50,746	29,638	38,487
Net cash used in (provided by) investing activities	**11,245**	(12,531)	(35,064)	(22,812)	(17,364)
Net cash used in financing activities	**(18,838)**	(29,430)	(11,431)	(31,085)	(6,888)
Free cash flows	**50,720**	23,252	15,682	6,826	21,123
Per share data:					
Shareholders' equity (yen)	**¥1,816.68**	¥1,745.96	¥1,816.25	¥1,832.24	¥1,840.63
Net income—basic (yen)	**67.98**	30.01	84.01	50.54	116.18
Ratio data:					
Asset turnover (times)	**0.4**	0.4	0.4	0.4	0.4
Tangible fixed assets turnover (times)	**2.8**	2.8	2.6	2.5	2.8
Return on equity—ROE (%)	**3.8%**	1.7	4.6	2.8	6.6
Return on assets—ROA (%)	**3.3%**	1.4	4.0	2.4	5.6

* The data previously presented as "Shareholders' equity" are shown as "Net assets" based on the new accounting standard for presentation of net assets applied from the fiscal year ended March 31, 2007. The data for March 31, 2006 have also been reclassified to reflect this change.
** Total capital expenditures related to production and research.

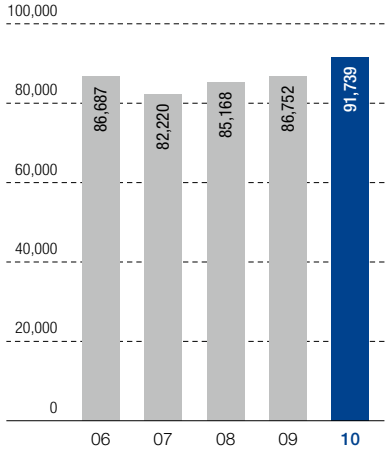
Graphs of Selected Financial Highlights

Years ended March 31

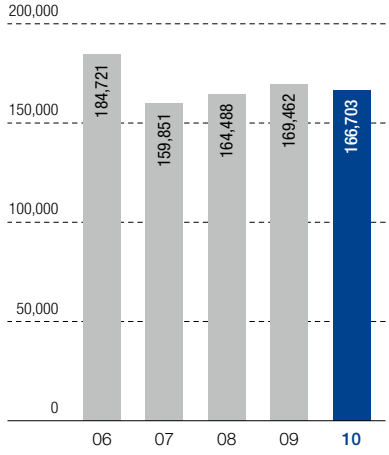
Net Sales (Millions of yen)



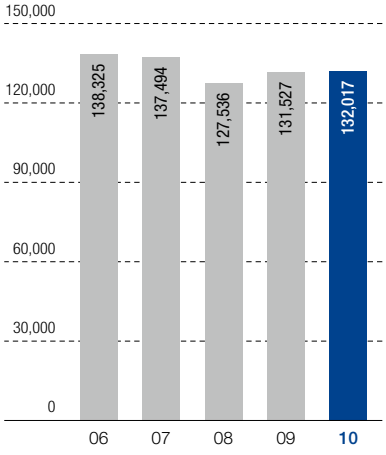
Cost of Sales (Millions of yen)



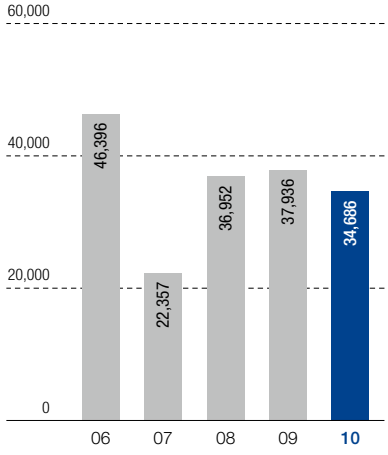
Gross Profit (Millions of yen)



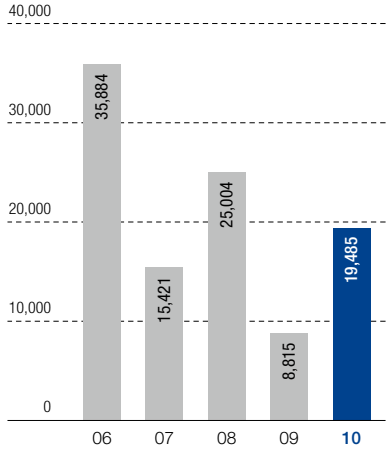
Selling, General and Administrative Expenses (Millions of yen)



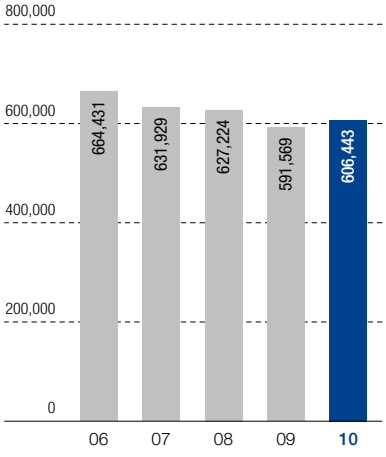
Operating Income (Millions of yen)



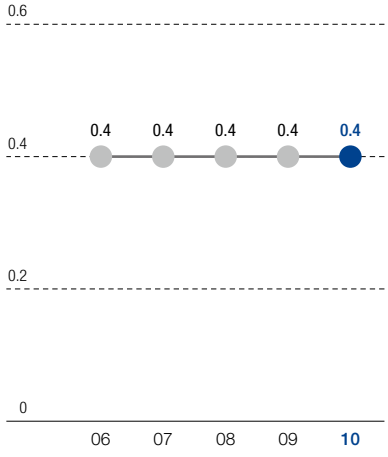
Net Income (Millions of yen)



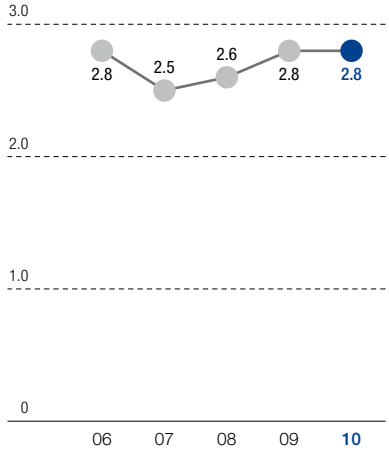
Total Liabilities and Net Assets (Millions of yen)



Asset Turnover (Times)



Tangible Fixed Assets Turnover (Times)



Management's Discussion and Analysis

Company Overview

The Taisho Pharmaceutical Group is made up of Taisho Pharmaceutical Co., Ltd. and its 25 subsidiaries and three affiliated companies. We are engaged in activities across two broad operating areas, the Self-Medication Operation Group, which entails the manufacture and sale of OTC drugs, food products and miscellaneous goods, and the Prescription Pharmaceutical Operation Group, which encompasses the manufacture and sale of prescription pharmaceuticals.

Operating Results

During fiscal 2009, ended March 31, 2010, the Japanese economy continued to suffer harsh conditions due to sluggish consumer spending caused by such factors as the worsening employment situation, despite signs of slight recovery on the heels of an upturn in external demand and government stimulus measures.

In the OTC drug market—the central business field of the Self-Medication Operation Group—Taisho Pharmaceutical's full-year performance deteriorated from that of fiscal 2008 due to such factors as stagnant Category 1 OTC drug sales following the June implementation of a new OTC drug retailing system along with significant declines in the markets for cold remedies from the third quarter onward and for energy drinks throughout fiscal 2009. Difficult business conditions persisted also for the Prescription Pharmaceutical Operation Group, which faced ever-intensifying competition as various government measures designed to reduce healthcare costs took hold in Japan.

For the period under review, consolidated net sales rose a slight ¥2,228 million, or 0.9%, year on year to ¥258,442 million, a figure that includes sales, totaling ¥8,456 million, posted by consolidated subsidiary Biofermin Pharmaceutical Co., Ltd.

Mainly owing to changes in sales composition, the cost of sales margin rose 1.6 percentage points year on year. This resulted in a decrease of ¥2,759 million, or 1.6%, in gross profit to ¥166,703 million.

Selling, general and administrative expenses edged up ¥491 million, or 0.4%, to ¥132,017 million, primarily due to increases in sales promotion expenses and ethical-drug R&D expenditures as well as to the depreciation of business and trademark rights in line with the acquisition of the Asian OTC drug operations of U.S.-based Bristol-Myers Squibb Company. As a result, operating income dropped ¥3,249 million, or 8.6%, to ¥34,686 million. The operating profit margin fell 1.4 percentage points to 13.4%.

Non-operating income declined ¥173 million year on year to ¥6,795 million, while non-operating expense declined ¥192 million to ¥4,810 million. Extraordinary income decreased ¥5,402 million to ¥15 million, and extraordinary loss contracted ¥17,664 million to ¥896 million, principally due to the absence of the amortization of goodwill recorded in the previous fiscal year. Accounting for the aforementioned factors, income before income taxes and minority interests surged ¥9,031 million, or 33.7%, to ¥35,791 million, and net income jumped ¥10,670 million, or 121.0%, to ¥19,485 million.

Based on these figures, net income per share increased ¥37.97 year on year to ¥67.98, and return on equity improved 2.1 percentage points to 3.8%.

Segment Information

Please refer to pages 8–9 for details of the Self-Medication Operation Group and pages 12–13 for details of the Prescription Pharmaceutical Operation Group.

Financial Position

Our financial policy calls for maintaining appropriate liquidity, securing sufficient working capital for corporate activities and ensuring sound balance sheets.

As of March 31, 2010, total assets stood at ¥606,443 million, an increase of ¥14,875 million, or 2.5%, from March 31, 2009. Current assets shrank ¥186 million, or 0.1%, to ¥215,687 million, while fixed assets expanded ¥15,061 million, or 4.0%, to ¥390,757 million.

Under current assets, cash and cash equivalents

decreased ¥7,365 million year on year, reflecting a cash outflow in connection with the acquisition of the Asian OTC drug operations of Bristol-Myers Squibb. Marketable securities increased ¥4,680 million, mainly due to a transfer from investment securities. Under fixed assets, tangible fixed assets decreased ¥2,215 million, or 2.4%, from March 31, 2009 to ¥90,746 million. Intangible assets increased ¥24,187 million, or 239.3%, year on year to ¥34,296 million. This increase reflected the recording of higher goodwill as well as business and trademark rights in line with the aforementioned acquisition involving Bristol-Myers Squibb. Investments and other assets declined ¥6,912 million, or 2.5%, to ¥265,715 million, mainly due to a decrease in deferred income taxes.

Total liabilities increased ¥1,625 million, or 2.1%, year on year to ¥78,683 million. Current liabilities rose ¥1,550 million, or 2.9%, to ¥55,680 million. Long-term liabilities stood at ¥23,002 million.

Net assets as of March 31, 2010 totaled ¥527,761 million, up ¥13,250 million, or 2.6%, from March 31, 2009. In June 2009, Taisho Pharmaceutical repurchased and retired 20 million shares of its treasury stock, which amounted to ¥40,366 million. Reflecting this and other factors, retained earnings decreased ¥28,667 million, or 5.4%, while treasury stock—a deductible item stated at cost under net assets—decreased ¥32,416 million, or 51.3%. Net unrealized gain on securities totaled ¥4,177 million, a turnaround from the net unrealized loss on securities of ¥3,752 million posted in the previous fiscal year. As a result, the equity ratio slipped 0.1 of a percentage point year on year to 85.3%. Net assets per share increased ¥70.72 to ¥1,816.68.

Cash Flows

Cash and cash equivalents as of March 31, 2010 stood at ¥96,957 million, a net increase of ¥32,095 million from March 31, 2009.

Cash Flows from Operating Activities

Net cash provided by operating activities totaled ¥39,475 million, a year-on-year increase of ¥3,693 million, largely due to the posting of income before income taxes and minority interests, which amounted to ¥35,791 million.

Cash Flows from Investing Activities

Net cash provided by investing activities amounted to ¥11,245 million, a turnaround from ¥12,531 million used in investing activities in the previous fiscal year. Major cash inflows were the proceeds from sales of investment securities totaling ¥52,069 million and a decrease in time deposits totaling ¥39,699 million. The major cash outflows included payments for purchases of investment securities totaling ¥44,520 million, payments for purchases of investment in subsidiaries resulting in change in scope of consolidation totaling ¥13,999 million, and payments for purchases of intangible assets totaling ¥15,285 million in connection with the acquisition of business and trademark rights and other assets from Bristol-Myers Squibb.

Cash Flows from Financing Activities

Net cash used in financing activities totaled ¥18,838 million, a year-on-year decrease of ¥10,592 million. Major factors for this decrease were decreased payments for purchases of treasury stock amounting to ¥7,927 million and the payments of ¥7,753 million in cash dividends.

Capital Expenditures

As part of ongoing efforts to expand its business operations, the Company undertook ¥21,526 million in capital expenditures during fiscal 2009. Principal components included ¥14,487 million used for purchasing business and trademark rights and other assets in line with the acquisition of the Asian OTC drug operations of Bristol-Myers Squibb, ¥1,169 million used for purchasing land on which a new Osaka Branch building will be constructed and ¥790 million

used for upgrading research facilities at the Research Center.

There was no material impact on our production capacity following the sale, disposal or loss of fixed assets.

Human Resources

The total number of employees as of March 31, 2010 was 5,569, with the Self-Medication Operation Group accounting for 2,394 employees, the Prescription Pharmaceutical Operation Group accounting for 1,814 employees and 1,361 employees engaged in Companywide operations.

Basic Earnings Distribution Policy

We adhere to a policy of consistently delivering a high level of dividends over the long term. Also, we strive to secure retained earnings growth in an effort to fortify our corporate structure. Aimed at strengthening our competitiveness and achieving business expansion, these retained earnings are used for R&D, capital investment, product introduction, capital and business alliances and new business development. In addition, with due consideration given to the funds required for such investments, we plan to repurchase treasury stocks in a flexible manner, aiming to improve capital efficiency and implement an agile financial policy.

We have decided to pursue a dividend policy pegged to non-consolidated operating results for each business term. The goal is to achieve a dividend payout ratio of 30% of net income, excluding extraordinary income/loss. We have introduced an interim dividend system and plan to continue to pay dividends twice a year. The Board of Directors and the shareholders' meeting make decisions regarding interim and year-end dividends, respectively. With the aim of allowing for flexible shareholder return, Taisho Pharmaceutical's Articles of Incorporation stipulate that a resolution at a Board of Directors' meeting may enable the payment of interim dividends with September 30 as the record date every year, as defined under Article 454, Paragraph 5, of the Japanese Corporate Law. For the fiscal year under review, we have determined to pay dividends as previously announced. Based on these dividends and net income excluding extraordinary income/loss, the dividend payout ratio stands at 34.1%. From fiscal 2010 onward, we will endeavor to secure an annual dividend payment of ¥27 per share even in the case of a payout ratio exceeding 30%, while maintaining policies geared to stable, high-level dividend payments and enhanced retained earnings.

Important Management Issues

Self-Medication Operation Group

The mainstay Self-Medication Operation Group continues to face severe operating conditions, affected by the ongoing economic slump, intensifying competition and a rapidly evolving market structure. Under such circumstances, the Company is striving to further enhance profitability by bolster the brand value of the *Lipovitan*, *Pabron*, *RiUP* and many other series that it has nurtured over the years.

In the area of sales and marketing, we will not only do our utmost to adapt to the new OTC drug retailing system, which took effect in June 2009, but also focus on further accelerating proposal-oriented sales activities based on our direct-sales systems and on establishing direct communication with consumers by expanding new channels, such as a mail-order system.

As for product development, we will enhance our lineup of Category 1 drugs by introducing Rx-to-OTC switch ingredients and aggressively penetrating new fields, including that related to metabolic syndrome. Also, we and the consolidated subsidiary Biofermin will work together to reinforce synergies through the integration of manufacturing technologies, the development of new products based on Biofermin's lactic acid technologies and joint R&D activities aimed at discovering new drug applications.

Prescription Pharmaceutical Operation Group

The operating environment surrounding the Prescription Pharmaceutical Operation Group has grown notably severe, reflecting various government policies aimed at curtailing healthcare expenses. To prevail in the face of ever-intensifying competition, we are pursuing R&D aimed at

creating highly unique new drugs that will succeed in markets worldwide. At the same time, we are working to reinforce our drug pipelines by promoting the introduction of promising drug candidates and aggressively undertaking joint development through alliances with our domestic and overseas counterparts.

Meanwhile, our consolidated sales and marketing subsidiary Taisho Toyama Pharmaceutical Co., Ltd. aims to strengthen its sales visits and promotional activities and enhance the productivity of its medical representatives (MRs). Furthermore, Taisho Toyama Pharmaceutical will buttress its areas of expertise in order to further solidifying its leading position in the field of infectious diseases.

M&A and Overseas Operations

Overseas, we are working to cement our business foundation for energy drinks, particularly in Asia, in order to establish the Company as an international leader in the energy drink field. Also, in the OTC drug business, we acquired OTC drug brand assets held in Asia by Bristol-Myers Squibb and its subsidiary PT. Bristol-Myers Squibb Indonesia Tbk. Once Bristol-Myers Squibb Indonesia was made a Taisho subsidiary, the company name was changed to PT. Taisho Pharmaceutical Indonesia Tbk. This newly acquired Indonesian arm will serve as a production center promoting the development of the OTC drug market in Southeast Asia.

Fiscal 2010 Outlook

In fiscal 2010, ending March 31, 2011, we expect to post net sales of ¥262,000 million, up 1.4% compared with the fiscal year under review, operating profit of ¥36,000 million, up 3.8% year on year, and net income of ¥24,500 million, up 25.7%. The forecasts for individual business groups are described as follows.

Self-Medication Operation Group

The Company will strive for sustainable sales and income expansion. To this end, we will continue to fortify solution proposals and in-store sales promotion by highlighting the value of our products. Furthermore, we will focus on strengthening our existing brands and launching new Category 1 OTC drugs while promoting streamlining efforts. We forecast that these activities will help raise Self-Medication Operation Group sales 5.3% to ¥167,200 million.

Full-year sales of OTC drugs are expected to increase 4.8% year on year to ¥151,300 million. Sales targets for our mainstay products are as follows: the *Lipovitan* series up 1.4% to ¥71,800 million; the *Pabron* series up 0.3% to ¥25,000 million; and the *RiUP* series up 6.2% to ¥13,500 million. Also, we plan to launch a number of new products, particularly Category 1 OTC drugs during fiscal 2010.

Sales of Foods for Specified Health Use are estimated to increase 12.3% year on year to ¥3,500 million, supported by expanded sales of *Livita* series core products targeting metabolic syndrome. We project overseas energy drink sales to rise 8.0% to ¥6,100 million.

Prescription Pharmaceutical Operation Group

Taisho Toyama Pharmaceutical is working to bolster the provision of product information and marketing capabilities in an effort to solidify its leading position in the infectious disease field. We forecast, however, that net sales in the Prescription Pharmaceutical Operation Group will decline 4.8% year on year to ¥94,800, mainly due to a decline in National Health Insurance (NHI) drug prices.

Full-year sales of ethical drugs are expected to edge down 3.4% year on year to ¥86,600 million. Sales targets for our flagship products are as follows: *Clarith* down 5.6% to ¥22,000 million; *Palux* down 7.6% to ¥10,000 million; *Lorcam* down 1.9% to ¥3,600 million; *PENTCILLIN* down 20.9% to ¥3,400 million; *ZOSYN* up 11.9% to ¥12,000 million; and *Geninax* up 4.1% to ¥5,000 million.

We expect sales in the Others category and royalty income to decline 17.5% and 23.1% to ¥7,800 million and ¥400 million, respectively.

Business and Other Risks

Of the potential risks involved in developing our business activities, those deemed to have the greatest likelihood of occurring are highlighted as follows. Forward-looking statements mentioned in this discussion of risks reflect management's beliefs and judgments as of March 31, 2010.

1. Legal risks and risks related to healthcare policy

Our operations are subject to laws and regulations governing pharmaceutical affairs. A number of different approval and permission systems exist at each stage of pharmaceutical operations, including development, manufacture, import and distribution. Consequently, there is a risk that any of our products could fail to conform to regulations at one of these stages, or that previously granted approvals could be revoked. Among other risks, depending on trends in healthcare policy, health insurance systems and other changes, we may also face the risk of a decline in pharmaceutical prices.

Taisho Pharmaceutical Co., Ltd. and Its Consolidated Subsidiaries For the years ended March 31

	Millions of yen				
	2010	2009	2008	2007	2006
Sales:					
Self-Medication Operation Group:	**¥158,851**	¥161,142	¥152,678	¥149,486	¥174,832
OTC and Other Medications	**144,320**	148,229	140,072	137,728	163,866
Foods for Specified Health Use and Other Products	**10,441**	9,921	9,826	8,658	8,140
Others	**4,090**	2,991	2,780	3,100	2,825
Prescription Pharmaceutical Operation Group:	**99,591**	95,072	96,978	92,585	96,576
Ethical drugs	**89,612**	84,712	81,969	79,700	81,779
Others	**9,458**	8,748	10,739	11,473	11,686
Royalty income	**520**	1,612	4,269	1,412	3,111
Operating profit:					
Self-Medication Operation Group	**¥ 30,459**	¥ 29,228	¥ 26,170	¥ 17,384	¥ 33,603
Prescription Pharmaceutical Operation Group	**4,227**	8,708	10,782	4,973	12,793
Identifiable assets:					
Self-Medication Operation Group	**¥215,667**	¥189,377	¥210,212	¥198,644	¥232,502
Prescription Pharmaceutical Operation Group	**149,875**	151,623	133,260	112,869	115,499
Depreciation and amortization:					
Self-Medication Operation Group	**¥ 8,588**	¥ 7,984	¥ 9,045	¥ 9,792	¥ 9,336
Prescription Pharmaceutical Operation Group	**2,945**	3,030	3,572	3,346	3,473
Capital expenditures:					
Self-Medication Operation Group	**¥ 15,990**	¥ 4,546	¥ 4,114	¥ 5,476	¥ 9,291
Prescription Pharmaceutical Operation Group	**5,536**	1,784	2,163	3,076	4,461

2. Risks involving pharmaceutical quality, side effects and other issues

We do our utmost to guarantee the reliability and quality of our pharmaceutical and other products. Nevertheless, unanticipated side effects, accidents and other factors could force us to recall or halt the sales of the pharmaceutical and other products affected or incur claims for damages.

3. Risks involving pharmaceutical development and commercialization

The development of pharmaceuticals is a lengthy process and requires a substantial amount of capital investment. There is an element of uncertainty inherent in the successful launch of products and businesses.

4. Risks involving intellectual property rights

If we are not properly protected by our intellectual property rights, there is a risk that a third party might use our technology and other intellectual property to undermine our market competitiveness. Similarly, there is the risk that we might encroach on the intellectual property rights of third parties.

5. Risks related to patent expiry

Although we strive to extend product life cycles, sales could be negatively impacted by, for example, the emergence of a generic drug or a switch to OTC drug produced following the expiration of a patent.

6. Risks from lawsuits

We face the possibility of lawsuits in the course of our business activities related to product liability, environmental issues and other matters.

7. Risks from fluctuations in foreign exchange rates

Fluctuations in foreign currency exchange rates could affect royalties denominated in foreign currencies received from outside Japan, commercial transactions and other factors, thus impacting our operating results.

8. Other risks

Due to various events, including sudden natural disasters and the deterioration of the social order at the locations where we operate, we could suffer major setbacks, such as the destruction of our overseas business sites or the need to downsize or withdraw from our overseas businesses. In addition, there are a variety of other risks involved, including those associated with the external procurement of raw materials and a dependency on the licenses of products developed by other companies. Please note, therefore, that the aforementioned risks do not constitute all the risks inherent in the Company's business activities.

Consolidated Balance Sheets

Taisho Pharmaceutical Co., Ltd. and Its Consolidated Subsidiaries
As of March 31, 2009 and 2010

	Millions of yen		Thousands of U.S. dollars (Note 1)
ASSTETS	2009	2010	2010
Current assets:			
Cash and cash equivalents (Notes 7 and 9)	¥ 112,990	**¥ 105,625**	**$ 1,135,146**
Notes and accounts receivable, trade (Note 9)	61,969	**60,380**	**648,897**
Marketable securities (Notes 7 and 10)	2,919	**7,599**	**81,664**
Inventories	22,146	**23,661**	**254,285**
Deferred income taxes (Note 13)	7,450	**7,712**	**82,878**
Other current assets (Note 15)	8,558	**10,859**	**116,700**
Allowance for doubtful accounts (Note 9)	(159)	**(149)**	**(1,606)**
Total current assets	215,873	**215,687**	**2,317,965**
Fixed assets:			
Tangible fixed assets:			
Buildings and structures	126,845	**129,109**	**1,387,525**
Machinery and equipment	78,007	**78,459**	**843,194**
Land	29,652	**30,829**	**331,313**
Construction-in-progress	1,219	**293**	**3,146**
Others	31,813	**33,103**	**355,759**
Accumulated depreciation (Note 4)	(174,574)	**(181,047)**	**(1,945,697)**
Total tangible fixed assets	92,961	**90,746**	**975,240**
Intangible assets:			
Goodwill	2,484	**14,238**	**153,016**
Sales rights	—	**11,252**	**120,926**
Others	7,624	**8,806**	**94,636**
Total intangible assets	10,109	**34,296**	**368,578**
Investments and other assets:			
Investment securities (Note 9)	205,410	**202,815**	**2,179,632**
Investment securities in affiliates	46,706	**47,058**	**505,725**
Long-term prepaid expenses	1,082	**997**	**10,714**
Deferred income taxes (Note 13)	14,121	**10,131**	**108,874**
Other assets	5,609	**4,940**	**53,088**
Allowance for doubtful accounts	(302)	**(225)**	**(2,422)**
Total investments and other assets	272,626	**265,715**	**2,855,611**
Total fixed assets	375,696	**390,757**	**4,199,429**
Total assets (Note 14)	¥ 591,569	**¥ 606,443**	**$ 6,517,394**

The accompanying notes are an integral part of these financial statements.

LIABILITIES AND NET ASSETS	Millions of yen 2009	Millions of yen 2010	Thousands of U.S. dollars (Note 1) 2010
Current liabilities:			
Notes and accounts payable, trade (Note 9)	¥ 20,150	**¥ 22,689**	**$ 243,839**
Short-term loans (Note 18)	605	**1,275**	**13,702**
Accounts payable	11,266	**10,229**	**109,926**
Accrued income taxes (Notes 9 and 13)	9,193	**7,972**	**85,675**
Accrued expenses	7,329	**7,579**	**81,450**
Provision for sales returns	636	**546**	**5,865**
Accrued bonuses to employees	4,327	**4,433**	**47,644**
Other current liabilities	624	**957**	**10,288**
Total current liabilities	54,130	**55,680**	**598,390**
Long-term liabilities:			
Long-term loans (Note 18)	1,050	**—**	**—**
Accrued retirement benefits for employees (Note 12)	15,937	**16,912**	**181,752**
Accrued retirement benefits for directors and corporate auditors	1,330	**1,385**	**14,888**
Deferred income taxes (Note 13)	425	**529**	**5,690**
Other long-term liabilities	4,186	**4,176**	**44,876**
Total long-term liabilities	22,928	**23,002**	**247,205**
Net Assets:			
Shareholders' equity:			
Common stock (Note 6)			
Authorized—			
2009: 1,174,959 thousand shares			
2010: 1,174,959 thousand shares			
Issued—			
2009: 320,465 thousand shares			
2010: 300,465 thousand shares	29,804	**29,804**	**320,306**
Capital surplus	14,935	**14,935**	**160,506**
Retained earnings	535,393	**506,726**	**5,445,734**
Treasury stock, at cost (Note 6)			
(2009: 31,130,669 shares, 2010: 15,577,100 shares)	(63,184)	**(30,768)**	**(330,657)**
Total shareholder's equity	516,948	**520,698**	**5,595,889**
Valuation and translation adjustments:			
Net unrealized gains/losses on securities	(3,752)	**4,177**	**44,888**
Foreign currency translation adjustments	(8,030)	**(7,324)**	**(78,710)**
Total valuation and translation adjustments	(11,782)	**(3,147)**	**(33,822)**
Minority interests in consolidated subsidiaries	9,345	**10,210**	**109,731**
Total net assets	514,511	**527,761**	**5,671,799**
Total liabilities and net assets	¥591,569	**¥606,443**	**$6,517,394**

Consolidated Statements of Income

Taisho Pharmaceutical Co., Ltd. and Its Consolidated Subsidiaries
For the years ended March 31, 2009 and 2010

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2009	2010	2010
Net sales (Note 14)	¥256,214	**¥258,442**	**$2,777,452**
Cost of sales (Notes 5 and 14)	86,752	**91,739**	**985,907**
Gross profit	169,462	**166,703**	**1,791,546**
Selling, general and administrative expenses (Notes 5 and 14)	131,527	**132,017**	**1,418,778**
Operating income (Note 14)	37,936	**34,686**	**372,768**
Non-operating income:			
Interest income	4,481	**5,013**	**53,876**
Dividend income	1,282	**941**	**10,115**
Rental income of real estate	35	**30**	**322**
Others (Note 15)	1,171	**811**	**8,715**
	6,969	**6,795**	**73,028**
Non-operating expense:			
Interest expense	35	**29**	**311**
Equity in net loss of affiliated companies	4,580	**3,877**	**41,666**
Others	386	**904**	**9,714**
	5,002	**4,810**	**51,691**
Ordinary income	39,902	**36,671**	**394,105**
Extraordinary income:			
Gain on sales of fixed assets (Note 5)	4	**15**	**165**
Gain on sales of investment securities	59	**—**	**—**
Gain on sales of investment securities in affiliates	4,383	**—**	**—**
Gain from the prior years' adjustment	891	**—**	**—**
Gain on refund of profit earned by main stockholder through short-term stock trading	80	**—**	**—**
	5,418	**15**	**165**
Extraordinary loss:			
Amortization of goodwill	12,852	**—**	**—**
Loss from changes in interest on equity method affiliates	2,291	**—**	**—**
Devaluation loss on investment securities	3,332	**269**	**2,890**
Loss on disposal of fixed assets (Note 5)	85	**104**	**1,118**
Loss on impairment of fixed assets (Note 5)	—	**523**	**5,624**
	18,560	**896**	**9,631**
Income before income taxes and minority interests	26,760	**35,791**	**384,639**
Income taxes (Note 13):			
Current	17,078	**16,617**	**178,581**
Deferred	(260)	**(1,437)**	**(15,441)**
	16,818	**15,180**	**163,141**
Minority interests in consolidated subsidiaries	1,126	**1,125**	**12,092**
Net income (Note 16)	¥ 8,815	**¥ 19,485**	**$ 209,406**

The accompanying notes are an integral part of these financial statements.

Consolidated Statements of Changes in Net Assets

Taisho Pharmaceutical Co., Ltd. and Its Consolidated Subsidiaries
For the years ended March 31, 2009 and 2010

Millions of yen

	Shareholders' equity					Valuation and translation adjustments					
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity	Net unrealized gains/losses on other securities	Deferred gain and loss from hedging	Foreign currency translation adjustments	Total valuation and translation adjustments	Minority interests in consolidated subsidiaries	Total net assets
Balance of March 31, 2008	¥29,804	¥14,935	¥534,551	¥(46,438)	¥532,853	¥ 9,631	¥(15)	¥(2,392)	¥ 7,224	¥ 8,574	¥548,650
Changes in the period											
Purchase of treasury stock				(16,740)	(16,740)						(16,740)
Dividends			(7,973)		(7,973)						(7,973)
Net income			8,815		8,815						8,815
Effect of changes in the shares of equity-method affiliates				(6)	(6)						(6)
Net changes in items except shareholders' equity						(13,383)	15	(5,638)	(19,006)	771	(18,235)
Total changes in the period			842	(16,746)	(15,904)	(13,383)	15	(5,638)	(19,006)	771	(34,139)
Balance of March 31, 2009	¥29,804	¥14,935	¥535,393	¥(63,184)	¥516,948	¥ (3,752)	¥ —	¥(8,030)	¥(11,782)	¥ 9,345	¥514,511
Changes in the period											
Purchase of treasury stock				(7,927)	(7,927)						(7,927)
Cancellation of treasury stock			(40,366)	40,366							
Dividends			(7,787)		(7,787)						(7,787)
Net income			19,485		19,485						19,485
Effect of changes in the shares of equity-method affiliates				(22)	(22)						(22)
Net changes in items except shareholders' equity						7,929		706	8,635	866	9,501
Total changes in the period			(28,667)	32,416	3,749	7,929		706	8,635	866	13,250
Balance of March 31, 2010	¥29,804	¥14,935	¥506,726	¥(30,768)	¥520,698	¥ 4,177	¥ —	¥(7,324)	¥ (3,147)	¥10,210	¥527,761

Thousands of U.S. dollars (Note 1)

	Shareholders' equity					Valuation and translation adjustments					
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity	Net unrealized gains/losses on other securities	Deferred gain and loss from hedging	Foreign currency translation adjustments	Total valuation and translation adjustments	Minority interests in consolidated subsidiaries	Total net assets
Balance of March 31, 2009	$320,306	$160,506	$5,753,821	$(679,031)	$5,555,602	$(40,324)		$(86,300)	$(126,624)	$100,429	$5,529,407
Changes in the period											
Purchase of treasury stock				(85,194)	(85,194)						(85,194)
Cancellation of treasury stock			(433,805)	433,805							
Dividends			(83,687)		(83,687)						(83,687)
Net income			209,406		209,406						209,406
Effect of changes in the shares of equity-method affiliates				(237)	(237)						(237)
Net changes in items except shareholders' equity						85,212		7,590	92,802	9,302	102,104
Total changes in the period			(308,087)	348,374	40,287	85,212		7,590	92,802	9,302	142,392
Balance of March 31, 2010	$320,306	$160,506	$5,445,734	$(330,657)	$5,595,889	$ 44,888	$ —	$(78,710)	$ (33,822)	$109,731	$5,671,799

The accompanying notes are an integral part of these financial statements.

Consolidated Statements of Cash Flows

Taisho Pharmaceutical Co., Ltd. and Its Consolidated Subsidiaries
For the years ended March 31, 2009 and 2010

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2009	2010	2010
Cash flows from operating activities:			
Income before income taxes and minority interests	¥ 26,760	**¥ 35,791**	**$ 384,639**
Adjustments:			
Depreciation and amortization (Note 14)	11,014	**11,533**	**123,946**
Amortization of goodwill	13,591	**282**	**3,025**
Devaluation losses on investment securities	3,332	**269**	**2,890**
Gain on sales of fixed assets (Note 5)	(4)	**(15)**	**(165)**
Loss on disposals of fixed assets (Note 5)	85	**104**	**1,118**
Loss on impairment of fixed assets (Note 5)	—	**523**	**5,624**
Gain from the prior year's adjustment	(891)	**—**	**—**
Gain on sales of investment securities in affiliates	(4,383)	**—**	**—**
Loss from changes in interest on equity method affiliates	2,291	**—**	**—**
Interest and dividend income	(5,762)	**(5,954)**	**(63,991)**
Interest expense	35	**29**	**311**
Equity in net loss of affiliated companies	4,580	**3,877**	**41,666**
Decrease in allowance for doubtful accounts	(84)	**(88)**	**(941)**
Increase in accrued retirement benefits	818	**848**	**9,110**
Increase (decrease) in prepaid pension costs	(1,366)	**32**	**349**
Decrease (increase) in accrued directors' retirement benefits	(599)	**56**	**597**
Increase in accrued bonuses for employees	37	**106**	**1,143**
Increase (decrease) in notes and accounts receivable, trade	(589)	**3,086**	**33,164**
Decrease (increase) in inventories	1,828	**(1,202)**	**(12,918)**
Increase in notes and accounts payable, trade	153	**2,447**	**26,298**
Decrease in long-term liabilities	(229)	**(23)**	**(245)**
Other, net	(2,980)	**(50)**	**(535)**
	47,638	**51,650**	**555,083**
Interest and dividends income received	5,777	**5,860**	**62,977**
Interest paid	(35)	**(29)**	**(311)**
Income taxes paid	(17,597)	**(18,006)**	**(193,509)**
Net cash provided by operating activities	35,783	**39,475**	**424,239**
Cash flows from investing activities:			
Decrease in time deposits	5,400	**39,699**	**426,640**
Proceeds from sale/redemption of marketable securities	24,612	**2,937**	**31,558**
Payments for purchases of tangible fixed assets	(3,219)	**(5,781)**	**(62,128)**
Proceeds from sales of tangible fixed assets	96	**48**	**515**
Payments for purchases of intangible fixed assets	(1,358)	**(15,285)**	**(164,265)**
Proceeds from sales of intangible fixed assets	8	**0**	**3**
Payments for purchases of investment securities	(64,297)	**(44,520)**	**(478,457)**
Proceeds from sales of investment securities	47,010	**52,069**	**559,580**
Payment for purchases of investment in subsidiaries resulting in change in scope of consolidation (Note 7)	—	**(13,999)**	**(150,449)**
Payments for purchases of investment securities in affiliates	(24,731)	**(4,182)**	**(44,944)**
Proceeds from sales of investment securities in affiliates	4,383	**—**	**—**
Payments of capital investment in subsidiaries	(495)	**—**	**—**
Payments for long-term prepaid expenses	(520)	**(405)**	**(4,354)**
Other, net	580	**665**	**7,145**
Net cash used in (provided by) investing activities	(12,531)	**11,245**	**120,844**
Cash flows from financing activities:			
Proceeds from short-term loans	646	**375**	**4,030**
Repayment of short-term loans	(265)	**(763)**	**(8,197)**
Repayment of capitalized lease obligations	(103)	**(240)**	**(2,583)**
Payments for purchases of treasury stock	(16,740)	**(7,927)**	**(85,194)**
Increase in money held in trust for purchase of treasury stock	(4,714)	**(2,173)**	**(23,351)**
Cash dividends	(7,951)	**(7,753)**	**(83,315)**
Cash dividends paid to minority shareholders	(304)	**(357)**	**(3,838)**
Net cash used in financing activities	(29,430)	**(18,838)**	**(202,449)**
Effect of exchange rate changes on cash and cash equivalents	(1,582)	**212**	**2,283**
Net decrease (increase) in cash and cash equivalents	(7,760)	**32,095**	**344,917**
Cash and cash equivalents at the beginning of the year	72,622	**64,862**	**697,069**
Cash and cash equivalents at the end of the year (Note 7)	¥ 64,862	**¥ 96,957**	**$1,041,986**

The accompanying notes are an integral part of these financial statements.

Notes to Consolidated Financial Statements

Taisho Pharmaceutical Co., Ltd. and Its Consolidated Subsidiaries

1. Basis of Presenting the Consolidated Financial Statements:

The accompanying consolidated financial statements of Taisho Pharmaceutical Co., Ltd. (the "Company") and its domestic and foreign subsidiaries (together, the "Companies") are basically English versions of those which have been filed with the Ministry of Finance and prepared in accordance with accounting principles and practices generally accepted in Japan, which differ in certain respects to the application and disclosure requirements of International Financial Reporting Standards. The preparation of these financial statements requires the management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements as well as reported amounts of revenues and expenses during the reporting periods.

The accompanying consolidated financial statements incorporate certain reclassifications and rearrangements in order to present these statements in a form which is more familiar to the readers of these statements outside Japan.

The figures shown in the consolidated financial statements have been rounded to the nearest million yen.

The U.S. dollar amounts are included solely for convenience and have been translated at the rate of ¥93.05 = U.S. $1, the approximate exchange rate prevailing in the Japanese foreign exchange market as at March 31, 2010. This translation should not be construed as a representation that the yen amounts actually represent, or have been or could be converted into U.S. dollars at that rate.

2. Summary of Significant Accounting Policies:

(1) Consolidation

a) Consolidated subsidiaries as of March 31, 2010

The consolidated financial statements include the accounts of the Company and all of its majority-owned subsidiaries (23 companies and 25 companies at March 31, 2009 and 2010, respectively).

Main subsidiaries are as follows:

Taisho Toyama Pharmaceutical Co., Ltd.
Taisho Pharmaceutical Logistics Co., Ltd.
Taisho Okinawa Co., Ltd.
Taisho M.T.C. Co., Ltd.
TAISHO ACTIVE HEALTH Co., Ltd.
Taisho Kosei Service Co., Ltd.
Mejiro Real Estate Co., Ltd.
Shimoda Central Co., Ltd.
Biofermin Pharmaceutical Co., Ltd
PT. Taisho Pharmaceutical Indonesia Tbk
Taisho Pharmaceutical Singapore Private Limited

The consolidated financial statements include the accounts of the Company and all subsidiaries which the Company has the ability to control.

The Company purchased a majority shareholding in PT. Taisho Pharmaceutical Indonesia Tbk and incorporated Taisho Pharmaceutical Singapore Private Limited during the fiscal year ended March 31, 2010. As a result, PT. Taisho Pharmaceutical Indonesia Tbk and Taisho Pharmaceutical Singapore Private Limited have been consolidated as subsidiaries of the Company since the fiscal year ended March 31, 2010.

b) Equity-method affiliates

Investments in all affiliated companies (three affiliates at March 31, 2009 and 2010) where shareholdings are more than 20% and where the Company has significant influence over operations, finance and management, are accounted for by the equity method. Main affiliates are Toyama Chemical Co., Ltd. and Yomeishu Seizo Co., Ltd.

Investments in 50% or less owned companies, over which the parent company does not have control but has the ability to exercise significant influence, are accounted for using the equity method. The excess of the cost over the underlying net equity of investments in affiliates accounted for on an equity basis is deferred and amortized over the period in which the future benefit of investments is estimated to continue. Consolidated net income includes the Company's equity in the current earnings of these equity companies after the elimination of unrealized intercompany profits.

c) Account closing dates

All significant intercompany transactions and accounts and unrealized intercompany profits are eliminated on consolidation. The results of consolidated subsidiaries, except for Taisho Toyama Pharmaceutical Co., Ltd., Mejiro Real Estate Co., Ltd., Shimoda Central Co., Ltd., TAISHO ACTIVE HEALTH Co., Ltd. and Biofermin Pharmaceutical Co., Ltd., are included in the consolidated accounts for the fiscal years ended December 31, 2008 and 2009, while the accounts of the five subsidiaries listed above are consolidated using their results for the fiscal years ended March 31, 2009 and 2010. Material differences in intercompany transactions and accounts arising from the use of the different fiscal year-ends are appropriately adjusted for on consolidation.

(2) Valuation methods for major assets

a) Securities:

1) Held-to-maturity debt securities are stated at cost after accounting for any premium or discount on acquisition, which is amortized over the period to maturity.
2) Other securities for which market quotations are available are stated at fair value. Net unrealized gains or losses on these securities are reported as a separate item in the shareholders' equity at a net-of-tax amount. Other securities for which market quotations are unavailable are stated at cost.

When the fair value of held-to-maturity debt securities or other securities has declined significantly and such impairment of the value is not deemed temporary, those securities are written down to the fair value and the resulting losses are included in net profit or loss for the period.

Debt securities due within one year are presented as "current assets" and all other securities are presented as "investment securities."

b) Derivatives:

All derivatives are stated at fair value, with changes in fair value included in profit or loss in the period in which they arise, except for derivatives that are designated as "hedging instruments."

c) Inventories:

Merchandise, finished goods and work-in-process are stated at the lower of cost or net realizable value, which is determined by the weighted average method. Raw materials are stated at the lower of cost or net realizable value, which is determined by the moving average method. Supplies are stated by using the last purchase price method.

(3) Depreciation and amortization of major assets

a) Tangible fixed assets (except for lease assets):

Tangible fixed assets, including significant renewals and improvements, are capitalized at cost. Maintenance and repairs and minor renewals and betterments are charged to income. Depreciation is computed primarily using the declining-balance method at rates based on the estimated useful lives of the assets. In the case of retirement or disposal, the difference between the net carrying amount and salvage or sales proceeds is charged or credited to income.

b) Intangible assets (except for lease assets):

The straight-line method is adopted. Sales rights is amortized based on the straight-line method over the expected useful economic life of 10 years. Software for in-house use is amortized based on the straight-line method over the expected useful economic life of 5 years.

c) Lease assets:

The straight-line method is adopted over the lease term with no residual value. However, finance lease transactions that do not transfer ownership, of which contract start dates are prior to April 1, 2008, are accounted for in a manner similar to operating leases.

(4) Basis of provision

a) Allowance for doubtful accounts:

An allowance for doubtful accounts is provided for estimated future losses based on past experience, and based on assessment of the collectability of individual receivables.

b) Provision for sales returns:

Provision for sales returns is provided for the expected returns of sales at the end of the fiscal year.

c) Accrued bonuses to employees:

Accrued bonuses are provided for the expected payments of employees' bonuses at the end of the fiscal year.

d) Accrued retirement benefits for employees:

The lump-sum severance indemnity regulations of the Companies, which cover substantially all employees, provide for benefit payments determined by reference to the employee's current basic rate of pay, length of service periods, qualification, evaluation and managerial posts.

The accrued retirement benefit represents the excess of the actuarially calculated present value of the projected benefit obligation over the fair value of the plan assets except for, as permitted under the standard, the unrecognized actuarial differences and the unrecognized prior service cost which are amortized on a straight-line basis over the period within the average remaining service period of employees. The unrecognized actuarial differences are amortized from the beginning of the subsequent year, while the unrecognized prior year service costs are amortized from the year in which they arise.

e) Accrued retirement benefits for directors and corporate auditors:

The Company and domestic consolidated subsidiaries have accrued severance indemnities cost for directors and corporate auditors based on internal regulations.

(5) Foreign currency translation

Foreign currency transactions are translated using foreign exchange rates prevailing at the transaction dates.

All monetary assets and liabilities denominated in foreign currencies, whether they are long-term or short-term, are translated into Japanese yen at the exchange rates prevailing at the balance sheet date. Resulting gains and losses are included in net profit or loss for the period.

All assets and liabilities of foreign subsidiaries and affiliates are translated at current rates at the respective balance sheet dates and all the income and expense accounts are translated at average rates for respective periods. Foreign currency translation adjustments are presented as a component of shareholders' equity in the consolidated financial statements.

(6) Hedge accounting

Gains or losses arising from changes in the fair value of derivatives designated as "hedging instruments" are deferred as a component of net assets and included in profit or loss in the same period in which the gains or losses on the hedged items or transactions are recognized.

Derivatives designated as hedging instruments by the Company are principally currency forward contracts and interest rate swaps. A hedged item is an asset, liability, firm commitment, or forecasted future transaction that exposes the enterprise to the risk of changes in fair value or changes in future cash flows and that, for hedge accounting purposes, is designated as being hedged.

The Company has a policy to utilize the above hedging instruments in order to reduce the Company's exposure to the risk of exchange and interest rate fluctuations. Thus, the Company's purchase of hedging instruments is limited to, at maximum, the amount of the items to be hedged.

The Company evaluates the effectiveness of its hedging activities by reference to the accumulated gains or losses on the hedging instruments and the related hedged items from the commencement of the hedges.

The Companies held no derivative instruments during the year ended March 31, 2009 and 2010.

(7) Consumption tax

The consumption tax withheld upon sale and consumption tax paid by the Companies on purchase of goods and services is not included within revenue, cost or expense items in the accompanying consolidated statements of income.

(8) Valuation method for assets and liabilities of subsidiaries which were acquired to become subsidiaries

Assets and liabilities of subsidiaries are measured at fair value as at the date of acquisition when consolidated.

(9) Amortization of goodwill and negative goodwill

Goodwill and negative goodwill are amortized equally over the effective periods.

(10) Cash and cash equivalents in consolidated statements of cash flows

For the purpose of the statements of cash flow, all highly liquid investments which are readily convertible into cash and/or which mature within three months or less are considered to be cash equivalents.

(11) Reclassifications

Certain reclassifications of the financial statements and related footnote amounts in the fiscal year ended March 31, 2009 have been made to conform to the presentation for the fiscal year ended March 31, 2010.

3. Accounting Changes:

(1) Accounting for retirement benefits

Partial Amendments to Accounting Standard for Retirement Benefits (Part 3) (ASBJ Statement No. 19, July 31, 2008) has been applied effective from the fiscal year ended March 31, 2010. This implementation had no effect on operating income, ordinary income, or income before income taxes and minority interests.

4. Consolidated Balance Sheets:

(1) Accumulated depreciation

Accumulated depreciation includes the accumulated amounts of impairment losses.

5. Consolidated Statements of Income:

(1) Research and development expenditures

Research and development expenditures, which are charged to income when incurred, and are included in cost of sales and selling, general and administrative expenses, amounted to ¥27,524 million and ¥28,118 million ($302,184 thousand) for the fiscal years ended March 31, 2009 and 2010, respectively.

	Millions of yen		Thousands of U.S. dollars (Note 1)
Years ended March 31	2009	**2010**	**2010**
Research and development expenditures	¥27,524	**¥28,118**	**$302,184**

(2) Selling, general and administrative expenses

The major components of "Selling, general and administrative expenses" are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
Years ended March 31	2009	**2010**	**2010**
Freight charges	¥ 7,794	**¥ 7,571**	**$ 81,369**
Advertisement costs	16,532	**16,454**	**176,832**
Sales promotion costs	23,373	**24,113**	**259,144**
Salaries and bonuses	23,263	**23,400**	**251,479**
Provisions for bonuses to employees	2,584	**2,551**	**27,410**
Pension costs	1,649	**2,079**	**22,344**
Research and development expenditures	27,524	**28,118**	**302,184**
Depreciation	4,415	**5,264**	**56,573**
Others	24,393	**22,466**	**241,442**
Total	¥131,527	**¥132,017**	**$1,418,778**

(3) The breakdown of gain on sales and loss on disposal of fixed assets

Details of gain on sales of fixed assets are as follows:

March 31, 2009	Millions of yen
Machinery, equipment and vehicles	¥4
Total	¥4

March 31, 2010	Millions of yen	Thousands of U.S. dollars (Note 1)
Buildings and structures	**¥11**	**$116**
Machinery, equipment and vehicles	**4**	**46**
Land	**0**	**2**
Others	**0**	**0**
Total	**¥15**	**$165**

Details of loss on disposal of fixed assets are as follows:

March 31, 2009	Millions of yen
Buildings and structures	¥35
Machinery, equipment and vehicles	40
Others	10
Total	¥85

March 31, 2010	Millions of yen	Thousands of U.S. dollars (Note 1)
Buildings and structures	**¥ 10**	**$ 113**
Machinery, equipment and vehicles	**73**	**784**
Land	**13**	**145**
Others	**7**	**76**
Total	**¥104**	**$1,118**

(4) Loss on impairment of fixed assets

The Company recorded a loss on impairment of fixed assets for the fiscal year ended March 31, 2010 on the following group of assets:

			Impairment loss	
Location	Use	Type of asset	Millions of yen	Thousands of U.S. dollars (Note 1)
Kita Ward, Saitama City, Saitama Prefecture	Idle assets	Buildings and structures	¥313	$3,369
		Machinery, equipment and vehicles	209	2,243
		Others	1	12
		Total	¥523	$5,624

In principle, the Companies' business-use assets are grouped according to the smallest group of cash generating units, and idle assets are grouped on individual basis.

For the year ended March 31, 2010, the Company wrote down the carrying amount of idle assets without specific future use to zero and recorded this as a loss on impairment of fixed assets in extraordinary loss.

6. Consolidated Statements of Changes in Net Assets:

(1) Shares issued

Share type	Previous fiscal year-end (thousand shares)	Increase (thousand shares)	Decrease (thousand shares)	Subject fiscal year-end (thousand shares)
Common stock	320,465	—	20,000	300,465

(2) Treasury stock

Share type	Previous fiscal year-end (thousand shares)	Increase (thousand shares)	Decrease (thousand shares)	Subject fiscal year-end (thousand shares)
Common stock	31,130	4,446	20,000	15,577

Notes: 1. Treasury stock increased due to the fact that the Company bought shares as a result of Board decision to purchase 4,371 thousand shares. In addition, the Company bought 65 thousand fractional shares which are less than thousand shares. Treasury stock also increased by 10 thousand shares due to the change of interest for equity method affiliates.
2. Treasury stock decreased due to the cancellation of 20,000 thousand shares on June 26, 2009.

(3) Matters related to dividends

a) Amount of dividends paid:

Resolution	Type of stock	Total amount of dividends (millions of yen)	Fiscal resource of dividends	Dividends per share (yen)	Date of record	Effective date
Ordinary general meeting of shareholders held on June 26, 2009	Common stock	4,343	Retained earnings	15	March 31, 2009	June 29, 2009
Meeting of directors held on October 30, 2009	Common stock	3,444	Retained earnings	12	September 30, 2009	December 3, 2009

Resolution	Type of stock	Total amount of dividends (Thousand of U.S. dollars) (Note 1)	Fiscal resource of dividends	Dividends per share (U.S. dollars) (Note 1)	Date of record	Effective date
Ordinary general meeting of shareholders held on June 26, 2009	Common stock	46,674	Retained earnings	0.16	March 31, 2009	June 29, 2009
Meeting of directors held on October 30, 2009	Common stock	37,013	Retained earnings	0.13	September 30, 2009	December 3, 2009

b) Of the dividends for which the date of record is in the fiscal year ended March 31, 2010, those dividends with effective date in the following consolidated fiscal year are as follows.

Resolution	Type of stock	Total amount of dividends (millions of yen)	Fiscal resource of dividends	Dividends per share (yen)	Date of record	Effective date
Ordinary general meeting of shareholders held on June 29, 2010	Common stock	4,277	Retained earnings	15	March 31, 2010	June 30, 2010

Resolution	Type of stock	Total amount of dividends (Thousands of U.S. dollars) (Note 1)	Fiscal resource of dividends	Dividends per share (U.S. dollars) (Note 1)	Date of record	Effective date
Ordinary general meeting of shareholders held on June 29, 2010	Common stock	45,959	Retained earnings	0.16	March 31, 2010	June 30, 2010

7. Consolidated Statements of Cash Flows:

(1) Cash and cash equivalents

Cash and cash equivalents at March 31, 2009 and 2010 comprise the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2009	2010	2010
Cash and time deposits with original maturity of three months or less	¥112,990	¥105,625	$1,135,146
Marketable securities	2,919	7,599	81,664
Sub total	115,909	113,224	1,216,810
Cash and time deposits with original maturity of more than three months	(48,136)	(8,765)	(94,198)
Marketable securities with original maturity of more than three months	(2,911)	(7,502)	(80,626)
Total	¥ 64,862	¥ 96,957	$1,041,986

(2) Assets and liabilities of newly consolidated subsidiary by acquisition of shares

Assets and liabilities of newly consolidated subsidiary by acquisition of shares at the inception of consolidation, related acquisition cost and net expenditure for acquisition of shares are as follows:

March 31, 2010	Millions of yen	Thousands of U.S. dollars (Note 1)
Current assets	¥ 2,306	$ 24,783
Fixed assets	919	9,873
Goodwill	12,035	129,343
Current liabilities	(562)	(6,041)
Long-term liabilities	(176)	(1,891)
Minority interests	(36)	(382)
Acquisition cost of shares	14,487	155,685
Cash and cash equivalents of the acquired company	(487)	(5,236)
Payment for acquisition of shares of newly consolidated subsidiary	¥13,999	$150,449

8. Finance Leases (Lessee):

Finance leases other than those which transfer ownership of properties to lessees

a) Types of lease assets:

Tangible fixed assets
Mainly information technology equipment.

b) Depreciation method:

Please refer to Note 2. (3) Depreciation and amortization of major assets (c) lease assets.

Finance lease transactions that do not transfer ownership, of which the contract start date is prior to April 1, 2008, are accounted for as operating leases. The details are as follows:

(1) Finance leases other than those which do not transfer ownership of properties to lessees are below:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2009	2010	2010
Tools, instruments and furniture	¥ 2,385	¥ 1,941	$ 20,864
Software	503	140	1,504
Others	20	20	213
At cost – sub total	2,909	2,101	22,580
Accumulated depreciation	(1,509)	(1,371)	(14,737)
Total	¥ 1,400	¥ 730	$ 7,844

(2) The present values of future lease payments of the Companies, excluding the amounts representing interest, at March 31, 2009 and 2010 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2009	2010	2010
Current obligation	¥ 676	¥476	$5,121
Long-term obligation	750	274	2,940
Present value of future lease payments	¥1,426	¥750	$8,061

(3) Lease payments and amounts representing depreciation and interest, at March 31, 2009 and 2010 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2009	2010	2010
Lease payments	¥1,038	¥641	$6,893
Amount representing depreciation	984	600	6,453
Amount representing interest	46	27	289

9. Financial instruments

(1) Status of financial instruments

a) Policy related to financial instruments:

The Company and consolidated subsidiaries invest only in short-term deposits and highly secure financial assets in accordance with the internal guideline for fund management. The Companies raise funds through borrowings from financial institutions including banks. The Companies do not enter into derivative transactions for speculative purposes. The Companies did not enter into any derivative transactions for the fiscal year ended March 31, 2010.

b) Details of financial instruments, risks and risk management system:

Notes and accounts receivable—trade are exposed to customer credit risk. In order to mitigate the risk, the balances and status of these receivables are monitored and managed in accordance with the internal management regulations for credit risk.

Marketable securities and investment securities mainly consist of equity securities, corporate bonds and preferred equity securities. While marketable securities and investment securities are exposed to market price fluctuation risk, the Company monitors market prices of these securities and financial conditions of the issuers periodically.

Notes and accounts payable—trade are due within one year.

Short-term loans are made in order to finance capital expenditures of a consolidated subsidiary.

While trade payables and borrowings are exposed to liquidity risk, the Company manages the risk mainly by detailed planning for cash receipts and disbursements.

c) Supplementary explanation regarding the fair values of financial instruments:

The fair value of financial instruments is based on market values as well as reasonably determined values in situations where the market value is unavailable.

(2) Fair value of financial instruments

Amounts carried on the consolidated balance sheet, their fair values, and the differences between them as of March 31, 2010 are as follows:

	Millions of yen		
March 31, 2010	Carrying amount	Fair value	Variance
a) Cash and deposits	¥105,625	¥105,625	¥ —
b) Notes and accounts receivable – trade	60,380		
Allowance for doubtful accounts	(149)		
	60,230	60,230	—
c) Marketable securities	7,502	7,502	—
d) Investment securities			
(i) Held-to-maturity securities	1,842	1,882	40
(ii) Available-for-sale securities	200,321	200,321	—
e) Investment securities in affiliates	7,877	5,940	(1,937)
f) Notes and accounts payable – trade	(22,689)	(22,689)	—
g) Short-term loans	(1,275)	(1,275)	—
h) Accounts payable	(10,229)	(10,229)	—
i) Accrued income taxes	(7,972)	(7,972)	—

	Thousands of U.S. dollars (Note 1)		
March 31, 2010	Carrying amount	Fair value	Variance
a) Cash and deposits	$1,135,146	$1,135,146	$ —
b) Notes and accounts receivable – trade	648,897		
Allowance for doubtful accounts	(1,606)		
	647,291	647,291	—
c) Marketable securities	80,626	80,626	—
d) Investment securities			
(i) Held-to-maturity securities	19,796	20,225	430
(ii) Available-for-sale securities	2,152,831	2,152,831	—
e) Investment securities in affiliates	84,658	63,837	$(20,821)
f) Notes and accounts payable – trade	(243,839)	(243,839)	—
g) Short-term loans	(13,702)	(13,702)	—
h) Accounts payable	(109,926)	(109,926)	—
i) Accrued income taxes	(85,675)	(85,675)	—

Notes: 1. Method of calculating fair value of financial instruments and matters regarding securities

(a) Cash and deposits, and (b) Notes and accounts receivable – trade (after deduction of amounts for allowance for doubtful accounts)

As these instruments are settled within a short term and their fair values and carrying amounts are similar, their carrying amounts are assumed as their fair value.

(c) Marketable securities, (d) Investment securities and (e) Investment securities in affiliates

The fair values of equity securities are determined by their market prices on stock exchanges. The fair values of bonds are determined according to market prices indicated on bond exchanges or the values indicated by financial institutions handling these transactions.
(f) Notes and accounts payable-trade, (g) Short-term loans, (h) Accounts payable and (i) Accrued income taxes
As these instruments are settled within a short term and their fair values and carrying amounts are similar, their carrying amounts are assumed as their fair value.

2. Financial instruments for which fair value is not readily determinable

Category	Carrying amount	
	Millions of yen	Thousands of U.S. dollars (Note 1)
Unlisted equity securities	¥ 432	$ 4,645
Investment securities in affiliates	39,180	421,067
Investment in limited partnerships	220	2,360
Other	97	1,038

These instruments are not included in (3) Investment securities, (4) Investment securities–available-for-sale securities and (5) Investment securities in affiliates, as they have no market value, and their fair value is not readily determinable.

3. Redemption schedule for monetary assets and expected maturity values of securities

March 31, 2010	Millions of yen			
	Due within one year	Due after one year within five years	Due after five years within ten years	Due after ten years
Cash and deposits	¥105,625	¥ —	¥ —	¥—
Notes and accounts receivable—trade	60,380	—	—	—
Marketable securities and investment securities				
Held-to-maturity securities (corporate bonds)	—	1,842	—	—
Available-for-sale securities with maturities				
(a) Bonds (corporate bonds)	4,300	300	25,300	—
(b) Other	5,000	—	—	—

March 31, 2010	Thousands of U.S. dollars (Note 1)			
	Due within one year	Due after one year within five years	Due after five years within ten years	Due after ten years
Cash and deposits	$1,135,146	$ —	$ —	$—
Notes and accounts receivable—trade	648,897	—	—	—
Marketable securities and investment securities				
Held-to-maturity securities (corporate bonds)	—	19,796	—	—
Available-for-sale securities with maturities				
(a) Bonds (corporate bonds)	46,212	3,224	271,897	—
(b) Other	53,735	—	—	—

(Additional information)
Accounting Standard for Financial Instruments (ASBJ Statement No. 10, March 10, 2008) and Implementation Guidance on Disclosures about Fair Value of Financial Instruments" (ASBJ Guidance No. 19, March 10, 2008) has been applied effective from the fiscal year ended March 31, 2010.

10. Marketable and Investment Securities:

The following information relates to the aggregate carrying amounts and fair value of securities at March 31, 2009.

(1) Held-to-maturity securities whose fair value is readily determinable.

March 31, 2009	Millions of yen		
	Carrying amount	Fair value	Unrealized gains (losses)
Securities whose fair values exceed their carrying amounts on the consolidated balance sheet			
(1) Government bonds, municipal bonds, etc.	¥ —	¥ —	¥ —
(2) Corporate bonds	911	919	8
Sub total	911	919	8
Securities whose fair values do not exceed their carrying amounts on the consolidated balance sheet			
(1) Government bonds, municipal bonds, etc.	—	—	—
(2) Corporate bonds	1,821	1,767	(54)
Sub total	1,821	1,767	(54)
Total	¥2,732	¥2,686	¥(46)

(2) Available-for-sale securities whose fair value is readily determinable.

March 31, 2009	Millions of yen		
	Acquisition cost	Carrying amount	Unrealized gains (losses)
Available-for-sale securities whose carrying amounts exceed on the consolidated balance sheet exceed their acquisition costs			
(1) Equity securities	¥ 12,708	¥ 19,052	¥ 6,344
(2) Government bonds, municipal bonds, etc.	—	—	—
(3) Corporate bonds	1,000	1,000	0
(4) Others	—	—	—
Sub total	13,708	20,052	6,344
Available-for-sale securities whose carrying amounts exceed on the consolidated balance sheet do not exceed their acquisition costs			
(1) Equity securities	32,987	25,791	(7,196)
(2) Government bonds, municipal bonds, etc.	—	—	—
(3) Corporate bonds	82,227	80,484	(1,743)
(4) Others	79,000	78,318	(682)
Sub total	194,214	184,593	(9,621)
Total	¥207,922	¥204,645	¥(3,277)

Available-for-sales securities whose fair value is readily determinable are recorded at fair value on the consolidated balance sheet at March 31, 2009.

(3) Available-for-sale securities sold in the fiscal year ended March 31, 2009

	Millions of yen
Proceeds from sales of other securities	¥400
Gain on sales of other securities	59
Loss on sales of other securities	—

(4) Securities whose fair value is not readily determinable.

	Millions of yen
	Book value
(1) Unlisted equity securities	¥463
(2) Bonds issued by domestic corporations	—
(3) Subscriptions to investment business associations	480

(5) Redemption schedule for available-for-sale securities with a maturity date and held-to-maturity securities

March 31, 2009	Millions of yen			
	Due within one year	Due after one year within five years	Due after five years within ten years	Due after ten years
1.Bonds				
(1) Goverment bonds, municipal bonds, etc.	¥ —	¥ —	¥ —	¥—
(2) Corporate bonds	2,910	22,421	19,300	
2.Others				—
(3) Others	—	—	—	—
Total	¥2,910	¥22,421	¥19,300	¥—

The following information relates to the aggregate carrying amounts and fair value of securities at March 31, 2010.

(1) Held-to-maturity securities.

March 31, 2010	Millions of yen		
	Carrying amount	Fair value	Unrealized gains (losses)
Securities whose fair values exceed their carrying amounts on the consolidated balance sheet			
(1) Government bonds, municipal bonds, etc.	¥ —	¥ —	¥ —
(2) Corporate bonds	1,842	1,882	40
Sub total	1,842	1,882	40
Securities whose fair values do not exceed their carrying amounts on the consolidated balance sheet			
(1) Government bonds, municipal bonds, etc.	—	—	—
(2) Corporate bonds	—	—	—
Sub total	—	—	—
Total	¥1,842	¥1,882	¥40

March 31, 2010	Thousands of U.S. dollars (Note 1) Carrying amount	Fair value	Unrealized gains (losses)
Securities whose fair values exceed their carrying amounts on the consolidated balance sheet			
(1) Government bonds, municipal bonds, etc.	$ —	$ —	$ —
(2) Corporate bonds	19,796	20,225	430
Sub total	19,796	20,225	430
Securities whose fair values do not exceed their carrying amounts on the consolidated balance sheet			
(1) Government bonds, municipal bonds, etc.	—	—	—
(2) Corporate bonds	—	—	—
Sub total	—	—	—
Total	$ 19,796	$ 20,225	$ 430

(2) Available-for-sale securities

March 31, 2010	Millions of yen Carrying amount	Acquisition cost	Unrealized gains (losses)
Securities whose carrying amounts exceed on the consolidated balance sheet exceed their acquisition costs			
(1) Equity securities	¥ 30,723	¥ 20,791	¥ 9,931
(2) Government bonds, municipal bonds, etc.	—	—	—
(3) Corporate bonds	54,803	53,302	1,500
(4) Others	78,125	75,000	3,125
Sub total	163,651	149,094	14,557
Securities whose carrying amounts exceed on the consolidated balance sheet do not exceed their acquisition costs			
(1) Equity securities	20,447	25,117	(4,670)
(2) Government bonds, municipal bonds, etc.	—	—	—
(3) Corporate bonds	23,725	23,852	(127)
(4) Others	—	—	—
Sub total	44,173	48,969	(4,797)
Total	¥207,823	¥198,063	¥ 9,760

Available-for-sale securities whose fair value is readily determinable are recorded at fair value on the consolidated balance sheet at March 31, 2010.

March 31, 2010	Thousands of U.S. dollars (Note 1) Carrying amount	Acquisition cost	Unrealized gains (losses)
Securities whose carrying amounts exceed on the consolidated balance sheet exceed their acquisition costs			
(1) Equity securities	$ 330,172	$ 223,444	$106,728
(2) Government bonds, municipal bonds, etc.	—	—	—
(3) Corporate bonds	588,960	572,836	16,124
(4) Others	839,606	806,018	33,587
Sub total	1,758,738	1,602,298	156,439
Securities whose carrying amounts exceed on the consolidated balance sheet do not exceed their acquisition costs			
(1) Equity securities	219,747	269,934	(50,187)
(2) Government bonds, municipal bonds, etc.	—	—	—
(3) Corporate bonds	254,973	256,336	(1,363)
(4) Others	—	—	—
Sub total	474,720	526,271	(51,551)
Total	$2,233,458	$ 2,128,569	$104,889

Available-for-sale securities whose fair value is readily determinable are recorded at fair value on the consolidated balance sheet at March 31, 2010.

For unlisted equity securities with a carrying amount of ¥432 million ($4,645 thousand), investment in limited partnerships with a carrying amount of ¥219 million ($2,360 thousand) and other available-for-sale securities with a carrying amount of ¥96 million ($1,038 thousand), there is no quoted market price available and an inability to estimate the future cash flows. These instruments are not included in available-for-sale securities as their fair value is not readily determinable.

(3) Available-for-sale securities sold in the fiscal year ended March 31, 2010

No available-for-sale securities were sold in the fiscal year ended March 31, 2010.

(4) Devaluation loss on investment securities

Devaluation loss on investment securities for the year ended March 31, 2010, totaled ¥ 268 million ($ 2,890 thousand). Devaluation losses on securities are recognized if the fair market value of securities declines more than 50% of their carrying amount.

11. Derivative Financial Instruments

The Companies utilize derivative financial instruments selectively, to hedge foreign exchange risk and floating interest exchange risk. The Companies held no derivative instruments during the fiscal years ended March 31, 2009 and 2010.

12. Pension and Severance Plans:

The funded status as at March 31, 2009 and 2010 was as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2009	2010	2010
(1) Projected benefit obligation	¥(41,119)	¥(43,882)	$(471,599)
(2) Fair value of plan assets	24,640	28,445	305,693
(3) Unfunded benefit obligation (1)+(2)	(16,479)	(15,438)	(165,907)
(4) Unrecognized prior service cost	(4,469)	(4,098)	(44,045)
(5) Unrecognized actuarial gain/loss	7,393	4,974	53,459
(6) Net liability (3)+(4)+(5)	(13,554)	(14,562)	(156,493)
(7) Prepaid pension expenses	2,383	2,350	25,259
(8) Accrued retirement benefits (6)-(7)	¥(15,937)	¥(16,912)	$(181,752)

The components of net retirement costs for the fiscal years ended March 31, 2009 and 2010 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2009	2010	2010
(1) Service costs	¥2,069	¥2,088	$22,434
(2) Interest costs	867	904	9,719
(3) Expected return on plan assets	(848)	(739)	(7,944)
(4) Amortization of prior service costs	(370)	(370)	(3,979)
(5) Amortization of actuarial gain/loss	199	572	6,144
(6) Retirement costs (1)+(2)+(3)+(4)+(5)	1,916	2,454	26,374
(7) Others*	566	580	6,232
Total (6)+(7)	¥2,482	¥3,034	$32,606

* The payment amounts for defined contribution plan.

Assumptions used for the year ended March 31, 2009 and 2010 were as follows:

	2009	2010
Discount rate	2.0%	2.0%
Expected return on plan assets	3.0%	3.0%
Method of attributing the projected benefits to periods of service	Straight-line basis	Straight-line basis
Period for amortization of prior service cost	15-17 years	15-17 years
Period for amortization of actuarial gain/loss	15-17 years	15-17 years

13. Income Taxes:

The significant components of deferred tax assets and liabilities as of March 31, 2009 and 2010 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2009	2010	2010
Deferred tax assets:			
Enterprise taxes	¥ 792	¥ 715	$ 7,681
Accrued expenses	2,266	2,321	24,939
Research expenses, etc.	1,970	2,329	25,030
Accrued bonuses	1,736	1,754	18,847
Accrued employees retirement benefits	6,403	6,560	70,497
Accrued retirement benefits for directors, statutory auditors and executive officers	540	562	6,043
Prepaid research expenses	4,600	5,723	61,508
Evaluation loss on investment securities	1,689	1,678	18,036
Valuation difference on available-for-sale securities	3,886	1,938	20,824
Operating loss carry forwards for tax purposes	486	551	5,918
Others	5,362	5,614	60,332
Gross deferred tax assets	29,730	29,744	319,653
Less: Valuation allowance	(2,453)	(2,737)	(29,417)
Total deferred tax assets	27,277	27,006	290,236
Deferred tax liabilities:			
Net unrealized gains on securities	(2,580)	(5,900)	(63,404)
Deferred gain on sales of real property	(2,582)	(2,520)	(27,078)
Prepaid pension expenses	(965)	(952)	(10,230)
Undistributed earnings of overseas subsidiaries and affiliates	(3)	(322)	(3,462)
Total deferred tax liabilities	(6,130)	(9,693)	(104,174)
Net deferred tax assets	¥21,147	¥17,313	$186,062

The tax rate reconciliations for the fiscal years ended March 31, 2009 and 2010 are as follows:

	March 31, 2009	March 31, 2010
Statutory tax rate	40.5%	**40.5%**
(Reconciliation)		
Entertainment expenses	2.6	**1.9**
Dividend income	(0.8)	**(0.5)**
Amortization of goodwill	20.6	**0.3**
Research expenses	(8.1)	**(6.0)**
Equity accounted losses of affiliated companies	6.9	**4.4**
Valuation allowance	1.1	**0.7**
Undistributed earnings of overseas subsidiaries and affiliates	0.1	**1.1**
Effective income tax rate	22.8%	**42.4%**

14. Segment Information:

(1) Industry segment information

The Company and its subsidiaries are engaged principally in the following two industrial segments:

Self-medication: OTC products, consumer goods for household and general use and other products.

Pharmaceutical: Ethical drugs

The segment information of the Company and its subsidiaries for the fiscal years ended March 31, 2009 and 2010 is presented below:

	Millions of yen				
March 31, 2009	Self-medication	Pharmaceutical	Total	Eliminations/ Corporate	Consolidated
I. Net sales:					
(1) Outside customers	¥161,142	¥95,072	¥256,214	¥ —	¥256,214
(2) Inter-segment	—	—	—	—	—
Total	161,142	95,072	256,214	—	256,214
Operating expense	131,914	86,364	218,278	—	218,278
Operating profit	¥ 29,228	¥ 8,708	¥ 37,936	¥ —	¥ 37,936
II. Assets, depreciation and capital expenditures:					
Assets	¥189,377	¥151,623	¥341,000	¥250,569	¥591,569
Depreciation and amortization	7,984	3,030	11,014	—	11,014
Capital expenditures	4,546	1,784	6,330	—	6,330

	Millions of yen				
March 31, 2010	Self-medication	Pharmaceutical	Total	Eliminations/ Corporate	Consolidated
I. Net sales:					
(1) Outside customers	**¥158,851**	**¥ 99,591**	**¥258,442**	**¥ —**	**¥258,442**
(2) Inter-segment	**—**	**—**	**—**	**—**	**—**
Total	**158,851**	**99,591**	**258,442**	**—**	**258,442**
Operating expense	**128,393**	**95,363**	**223,756**	**—**	**223,756**
Operating profit	**¥ 30,459**	**¥ 4,227**	**¥ 34,686**	**¥ —**	**¥ 34,686**
II. Assets, depreciation and capital expenditures:					
Assets	**¥215,667**	**¥149,875**	**¥365,542**	**¥240,901**	**¥606,443**
Depreciation and amortization	**8,588**	**2,945**	**11,533**	**—**	**11,533**
Capital expenditures	**15,990**	**5,536**	**21,526**	**—**	**21,526**

	Thousands of U.S. dollars (Note 1)				
March 31, 2010	Self-medication	Pharmaceutical	Total	Elimination/ Corporate	Consolidated
I. Net sales:					
(1) Outside customers	**$1,707,162**	**$1,070,290**	**$2,777,452**	**$ —**	**$2,777,452**
(2) Inter-segment	**—**	**—**	**—**	**—**	**—**
Total	**1,707,162**	**1,070,290**	**2,777,452**	**—**	**2,777,452**
Operating expense	**1,379,823**	**1,024,861**	**2,404,684**	**—**	**2,404,684**
Operating profit	**$ 327,339**	**$ 45,429**	**$ 372,768**	**$ —**	**$ 372,768**
II. Assets, depreciation and capital expenditures:					
Assets	**$2,317,757**	**$1,610,691**	**$3,928,448**	**$2,588,946**	**$6,517,394**
Depreciation and amortization	**92,299**	**31,647**	**123,946**	**—**	**123,946**
Capital expenditures	**171,842**	**59,495**	**231,336**	**—**	**231,336**

(2) Geographic area information and export sales information

As the total sales from consolidated subsidiaries outside Japan and the total export sales overseas are less than 10% of the consolidated net sales, information relating to geographic area and export sales has been omitted.

15. Related Party Transactions:

For the year ended March 31, 2009:
(Additional information)
"Accounting Standard for Related Party Disclosures" (Accounting Standards Board of Japan Statement No. 11, issued on October 17, 2006) and "Guideline on Accounting Standard for Related Party Disclosures" (Accounting Standards Implementation Guideline No. 13, issued on October 17, 2006) have been adopted effective from the fiscal year ended March 31, 2009.

(1) Related transactions with the Company—the affiliates of the Company

Name	Location	Capital	Shares with voting rights owned by Company in related party/ (owned by related party in Company)	Transactions	Amounts (Millions of yen)	Closing balances	Amounts (Millions of yen)
Toyama Chemical Co., Ltd.	Shinjuku ward, Tokyo	¥37,400 million	34.00%	Sales of fractional shares of the equity method affiliates.	¥4,383	—	¥—

(2) Related transaction with the subsidiaries of the Company—Directors and individual shareholders

Name	Location	Capital	Shares with voting rights owned by Company in related party/ (owned by related party in Company)	Transactions	Amounts (Millions of yen)	Closing balances	Amounts (Millions of yen)
Taisei Co., Ltd.	Toshima ward, Tokyo	¥100 million	(1.26%)	Other income	¥31	Other assets	¥0

For the year ended March 31, 2010:

(1) Related transaction with the subsidiaries of the Company—Directors and individual shareholders

Name	Location	Capital	Shares with voting rights owned by Company in related party/ (owned by related party in Company)	Transactions	Amounts (Millions of yen)	Amounts (Thousands of U.S. dollars) (Note 1)	Closing balances	Amounts (Millions of yen)	Amounts (Thousands of U.S. dollars) (Note 1)
Taisei Co., Ltd.	Toshima ward, Tokyo	¥100 million	(1.27%)	Other income	¥33	$353	Other assets	¥1	$8

16. Per Share Information:

The computation of net income per share is based on the weighted-average number of common shares outstanding during each fiscal year. Treasury stocks held during these periods are excluded. As the Company had no diluted securities as at March 31, 2009 and 2010, the Company does not disclose amounts of diluted net income per share for the years ended March 31, 2009 and 2010.

	Yen		U.S. dollars (Note 1)
March 31	2009	**2010**	**2010**
Net assets per share	¥1,745.95	**¥1,816.68**	**$19.52**
Net income per share	30.01	**67.98**	**0.73**
Diluted net income per share	—	**—**	**—**

Basic net income per share

	Millions of yen		Thousands of U.S. dollars (Note 1)
March 31	2009	**2010**	**2010**
Net income	¥8,815	**¥19,485**	**$209,406**
Net income not available to common shareholders	—	**—**	**—**
Net income available to common shareholders	8,815	**19,485**	**209,406**
Weighted-average number of shares outstanding (shares)	293,726,850	**286,642,206**	**286,642,206**

17. Contingent Liabilities:

Based upon information currently available, the Company and its consolidated subsidiaries have no significant pending lawsuits.

18. Schedule of Borrowings:

	Millions of yen		Thousands of U.S. dollars (Note 1)	Average interest rate (%)	Due date of payment
	2009	**2010**	**2010**		
Short-term loans	¥ 605	**¥ 225**	**$ 2,418**	1.475	—
Current portion of long-term loans	—	**1,050**	**11,284**	1.350	July 7, 2010
Current portion of lease obligations	194	**267**	**2,874**	—	—
Long-term loans (without current portion)	1,050	**—**	**—**	—	—
Lease obligations (without current portion)	488	**465**	**4,999**	—	From 2011 to 2014
Other	—	**—**	**—**		
Total	¥2,338	**¥2,008**	**$21,576**	—	—

(1) "Average interest rate" represents the weighted average interest rate against the term-end balance of borrowings.
(2) As interest is included in the lease payment and is allocated on the straight-line method to each fiscal year, average interest rate of lease obligations is omitted.
(3) The projected repayment amount of long-term debt (excluding debt scheduled to be repaid within one year) within five years after the consolidated balance sheet date (i.e. March 31, 2010) is as follows.

	Millions of yen				Thousands of U.S. dollars (Note 1)			
	Due within one year	Due after one year within five years	Due after five years within ten years	Due after ten years	Due within one year	Due after one year within five years	Due after five years within ten years	Due after ten years
Lease obligations	¥267	¥165	¥32	¥1	$2,869	$1,778	$340	$11

PRICEWATERHOUSECOOPERS

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Report of Independent Auditors

July 27, 2010

To the Board of Directors of
Taisho Pharmaceutical Co., Ltd.

We have audited the accompanying consolidated balance sheet of Taisho Pharmaceutical Co., Ltd. ("the Company") and its subsidiaries as of March 31, 2010, and the related consolidated statements of income, changes in net assets and cash flows for the year then ended, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company and its subsidiaries as of March 31, 2010, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2010 are presented solely for convenience. Our audit also included the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

PricewaterhouseCoopers Aarata
(Certified Public Accountants)

Major Subsidiaries and Affiliates

(As of May 31, 2010)

Name	Location	Capitalization/ Amount Invested	Business Area	Parent Company Ownership
Domestic				
Taisho Toyama Pharmaceutical Co., Ltd.	Tokyo, Japan	JPY 2,000,000,000	Sales of prescription pharmaceuticals	70.3%
Biofermin Pharmaceutical Co., Ltd.	Hyogo, Japan	JPY 1,227,000,000	Manufacture and sales of OTC products and prescription pharmaceuticals	55.8%
Taisho Pharmaceutical Logistics Co., Ltd.	Saitama, Japan	JPY 30,000,000	Management and operation of transport services for Taisho Pharmaceutical and Taisho Toyama Pharmaceutical	100%
Taisho M.T.C. Co., Ltd.	Tokyo, Japan	JPY 400,000,000	Manufacture and sales of raw materials for medicines and quasi-drugs in Fukuoka Prefecture	60%
Mejiro Real Estate Co., Ltd.	Tokyo, Japan	JPY 600,000,000	Leasing, maintenance, possession and management of real estate	100%
Taisho Okinawa Co., Ltd.	Okinawa, Japan	JPY 50,000,000	Sales of Taisho Pharmaceutical products in Okinawa Prefecture	100%
TAISHO ACTIVE HEALTH Co., Ltd.	Tokyo, Japan	JPY 100,000,000	Development and contract manufacture of health foods, quasi-drugs and skin care products	55%
Overseas				
Osotspa Taisho Co., Ltd.	Bangkok, Thailand	THB 15,000,000	Sales of Taisho Pharmaceutical products in Thailand	49%
Taisho Pharmaceutical (M) SDN. BHD.	Selangor, Malaysia	MYR 24,380,000	Manufacture and sales of Taisho Pharmaceutical products in Malaysia	100%
Taisho Co., Ltd. Shanghai	Shanghai, China	CNY 132,621,000	Manufacture and sales of Taisho Pharmaceutical products in China	100%
Taisho Pharmaceutical (Taiwan) Co., Ltd.	Taipei, Taiwan	TWD 200,000,000	Manufacture and sales of Taisho Pharmaceutical products in Taiwan	100%
Taisho Vietnam Co., Ltd.	Khanh Hoa Pro., Vietnam	VND 170,754,300,000	Manufacture and sales of Taisho Pharmaceutical products in Vietnam	100%
Taisho Pharmaceutical R&D Inc.	Morristown, NJ, U.S.A.	USD 4,000,000	Development of prescription pharmaceuticals in the United States	100%
Taisho Pharmaceuticals (Philippines), Inc.	Makati, Philippines	PHP 18,900,000	Manufacture (commissioned) and sales of Taisho Pharmaceutical products in the Philippines	100%
Taisho Pharmaceutical California Inc.	Torrance, CA, U.S.A.	USD 41,050,000	Manufacture (commissioned) and sales of Taisho Pharmaceutical products in the United States	100%
Taisho Pharmaceutical (H.K.) Ltd.	Hong Kong, China	HKD 163,000,000	Sales of Taisho Pharmaceutical products in Hong Kong	100%
PT. Taisho Indonesia	Jakarta, Indonesia	IDR 42,920,000,000	Manufacture (commissioned) and sales of Taisho Pharmaceutical products in Indonesia	100%
PT. Taisho Pharmaceutical Indonesia Tbk	Jakarta, Indonesia	IDR 10,240,000,000	Manufacture of Taisho Pharmaceutical products for the Asian market and sales of Taisho Pharmaceutical products in Indonesia	98.6%
Taisho Pharmaceutical Singapore Private Limited	Singapore	USD 1,000,000	Integration of OTC drug business for Asian market	100%

Corporate Data

(As of June 29, 2010)

Company Name: Taisho Pharmaceutical Co., Ltd.

Date of Foundation: October 12, 1912

Paid-in Capital: ¥29,804 million

Number of Employees: 5,569 (As of March 31, 2010)

Home Page: http://www.taisho.co.jp/

Board of Directors:

Chairman and CEO
Akira Uehara*

Vice Chairman
Akira Ohira

Executive Vice Presidents
Hisataka Hotta*
Shigeru Uehara

Managing Directors
Akihito Sakai
Ken Uehara

Executive Directors
Yoshihiro Namekawa
Kiyomi Chuurei
Jun-ichi Fukudome
Ken-ichi Fujita
Toshio Morikawa**
Akemichi Baba**

Corporate Auditors:
Satoshi Toyama
Shigeo Morimoto
Isao Yoshikawa***
Setsuko Kusumoto***

* Representative Director
** Outside director as stipulated by Article 2.15 of the Corporate Law
*** Outside auditor as stipulated by Article 2.16 of the Corporate Law

Directory:

Headquarters	3-24-1, Takada, Toshima-ku, Tokyo 170-8633, Japan Telephone: 81-3-3985-1111 Facsimile: Public Relations Section: 81-3-3985-6485 International Division: 81-3-3980-6624 (Self-Medication Operation Group) Self-Medication Licensing Division: 81-3-3988-2963 (Prescription Pharmaceutical Operation Group) Pharmaceutical Business Planning Section: 81-3-3985-0716
Branch Offices	Sapporo, Sendai, Nagoya, Osaka, Kanazawa, Hiroshima, Shikoku, Fukuoka
The Omiya Factory	1-403, Yoshino-cho, Kita-ku, Saitama-shi, Saitama 331-9520, Japan Telephone: 81-48-663-1111 Facsimile: 81-48-664-9400
The Research Center	1-403, Yoshino-cho, Kita-ku, Saitama-shi, Saitama 331-9530, Japan Telephone: 81-48-663-1111 Facsimile: 81-48-652-7254
The Okayama Factory	33-2, Taiheidai, Shouou-cho, Katsuta-gun, Okayama 709-4321, Japan Telephone: 81-868-38-6131 Facsimile: 81-868-38-5342
The Hanyu Factory	1-603-27, Komatsudai, Hanyu-shi, Saitama 348-8540, Japan Telephone: 81-48-563-1121 Facsimile: 81-48-563-2152

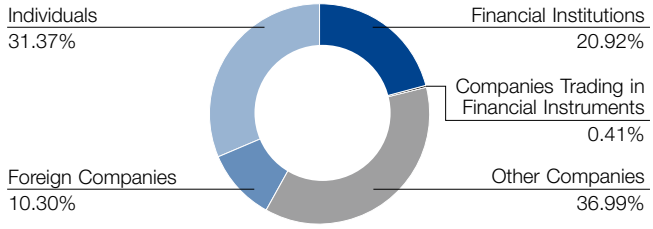
Investor Information

(As of March 31, 2010)

Common stock:

Authorized:	1,174,959,000
Issued:	300,465,510
Number of shareholders:	37,282
General Meeting of Shareholders:	Held annually in June
Listing:	Tokyo Stock Exchange
Ticker Symbol Number:	4535
Stock Transfer Agent:	Mitsubishi UFJ Trust and Banking Corporation 7-10-11, Higashisuna, Koto-ku, Tokyo 137-8081, Japan
Headquarters:	3-24-1, Takada, Toshima-ku, Tokyo 170-8633, Japan

Distribution of Shareholders

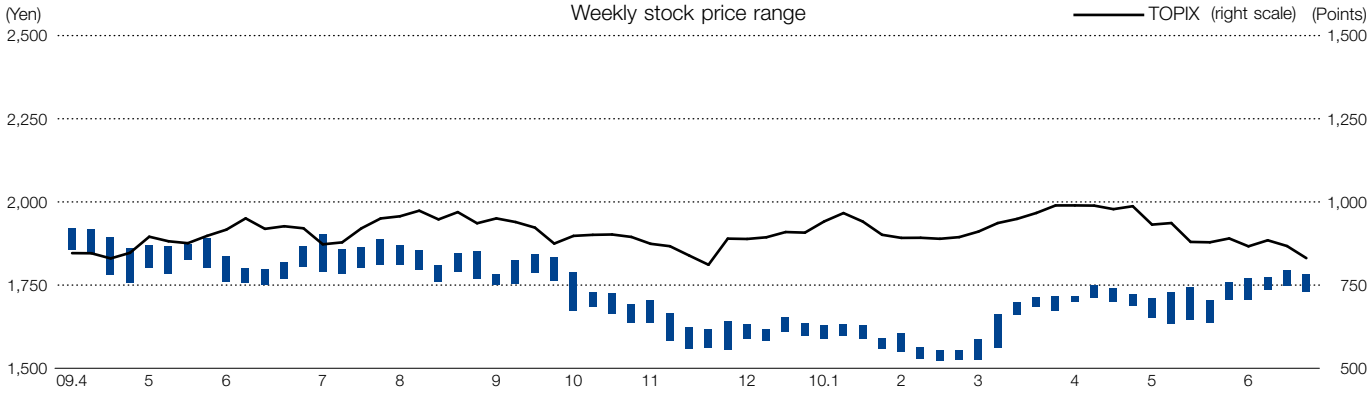


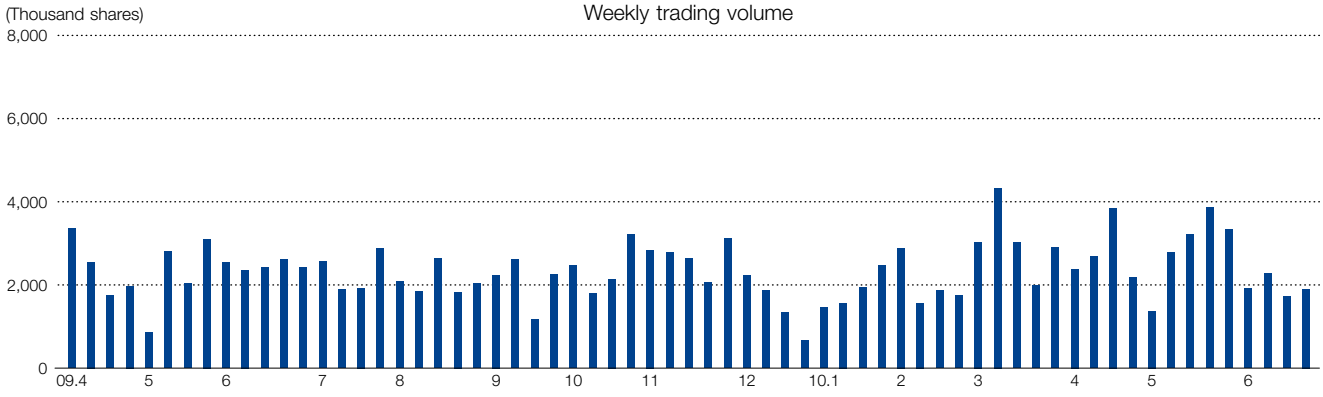
Major Shareholders

	Number of Voting Rights (Thousands)	Percentage of Voting Rights** (%)
The Uehara Memorial Foundation	43,000	15.08
Shoji Uehara	36,614	12.84
Sumitomo Mitsui Banking Corporation	10,000	3.51
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	10,000	3.51
Uehara Museum of Modern Art Foundation	10,000	3.51
Japan Trustee Services Bank, Ltd. (trust account)	8,411	2.95
Akira Uehara	7,145	2.51
Sumitomo Chemical Co., Ltd.	7,033	2.47
The Master Trust Bank of Japan, Ltd. (Account in Trust)	5,602	1.96
Kajima Corporation	5,500	1.93

Number of voting rights (shares) is rounded down to the nearest 1,000.
*Excluding treasury stock (15,365 thousand shares)
**Calculated excluding treasury stock (15,365 thousand shares)

Stock Data (TSE) (April 2008—June 2009)





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